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 2009

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

Platinum® ASSET MANAGEMENT

**Front cover photograph:** Colin Anderson

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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

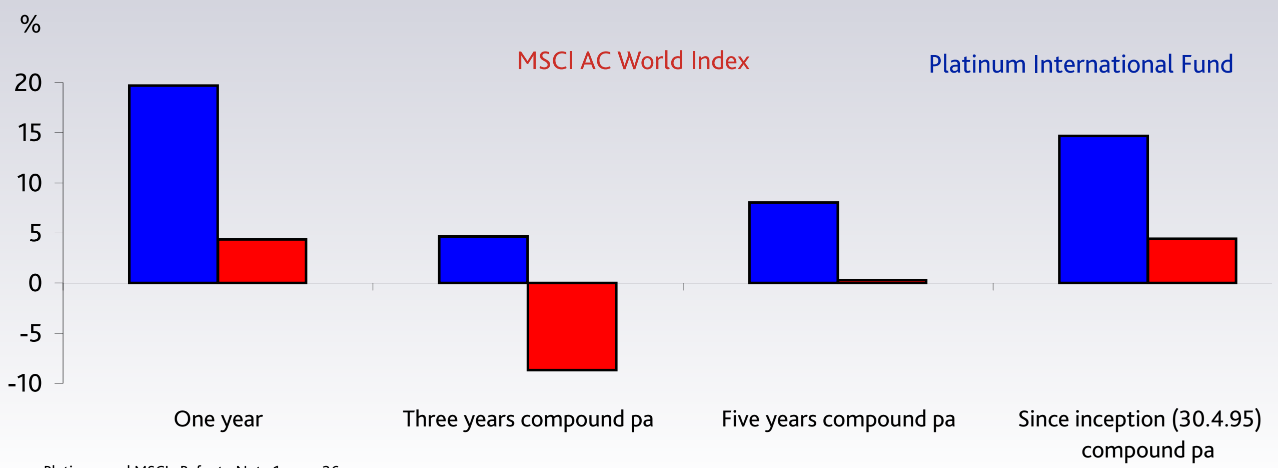
# PERFORMANCE RETURNS TO 31 DECEMBER 2009

| FUND | PORTFOLIO VALUE | QUARTER | 1 YEAR | 2 YEARS COMPOUND PA | 3 YEARS COMPOUND PA | 5 YEARS COMPOUND PA | SINCE INCEPTION COMPOUND PA |
|---|---|---|---|---|---|---|---|
| **INTERNATIONAL FUND** | **$8,772m** | **2.1%** | **19.7%** | **5.3%** | **4.6%** | **8.0%** | **14.7%** |
| MSCI AC* WORLD INDEX | | 2.7% | 4.4% | -12.8% | -8.7% | 0.3% | 4.4% |
| **UNHEDGED FUND** | **$61m** | **2.7%** | **30.6%** | **1.8%** | **2.6%** | **-** | **10.8%** |
| MSCI AC WORLD INDEX | | 2.7% | 4.4% | -12.8% | -8.7% | - | 0.5% |
| **ASIA FUND** | **$3,451m** | **4.2%** | **40.2%** | **-0.4%** | **9.1%** | **16.6%** | **22.2%** |
| MSCI AC ASIA EX JAPAN INDEX | | 4.6% | 33.4% | -10.6% | 0.2% | 10.4% | 12.8% |
| **EUROPEAN FUND** | **$174m** | **1.3%** | **28.0%** | **-2.0%** | **-2.3%** | **5.6%** | **11.7%** |
| MSCI AC EUROPE INDEX | | 1.6% | 6.6% | -16.1% | -10.2% | 1.2% | -0.5% |
| **JAPAN FUND** | **$467m** | **-6.1%** | **9.1%** | **0.3%** | **-4.4%** | **3.7%** | **14.6%** |
| MSCI JAPAN INDEX | | -4.6% | -17.6% | -14.3% | -14.2% | -3.5% | -1.7% |
| **INTERNATIONAL BRANDS FUND** | **$444m** | **9.7%** | **31.7%** | **3.7%** | **3.6%** | **11.0%** | **13.3%** |
| MSCI AC WORLD INDEX | | 2.7% | 4.4% | -12.8% | -8.7% | 0.3% | -3.7% |
| **INTERNATIONAL HEALTH CARE FUND** | **$14m** | **0.6%** | **7.6%** | **-4.8%** | **-3.2%** | **1.0%** | **1.5%** |
| MSCI AC WORLD HEALTH CARE INDEX | | 5.6% | -7.4% | -4.3% | -4.9% | 0.6% | 1.6% |
| **INTERNATIONAL TECHNOLOGY FUND** | **$42m** | **1.4%** | **31.0%** | **5.7%** | **3.0%** | **6.7%** | **9.1%** |
| MSCI AC WORLD IT INDEX | | 6.2% | 22.6% | -7.5% | -4.5% | 0.3% | -11.4% |

* Morgan Stanley Capital International All Country

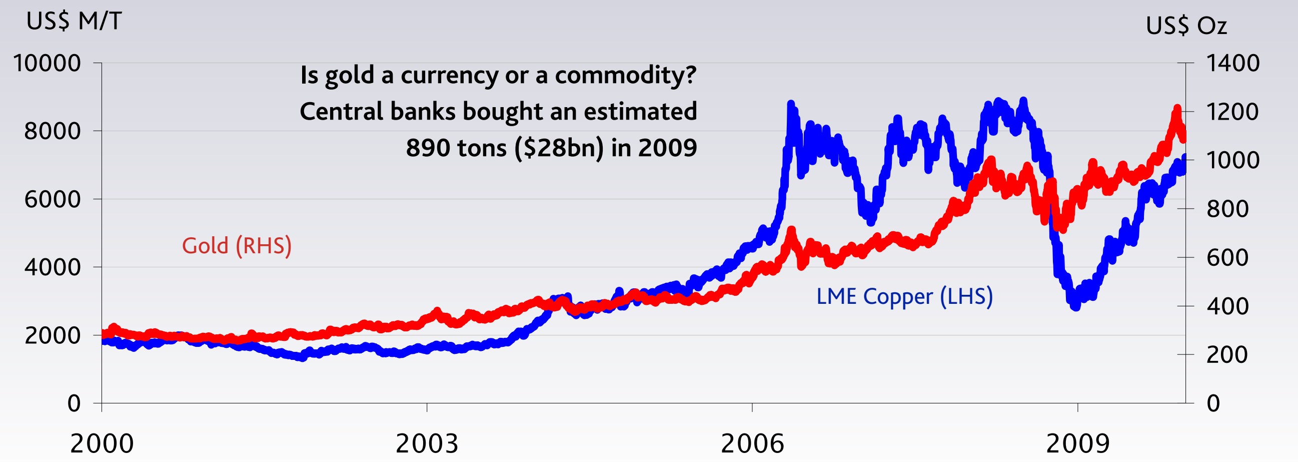
Source: Platinum and MSCI. Refer to Note 1, page 36.

**PLATINUM INTERNATIONAL FUND VERSUS MSCI WORLD INDEX** TO 31 DECEMBER 2009



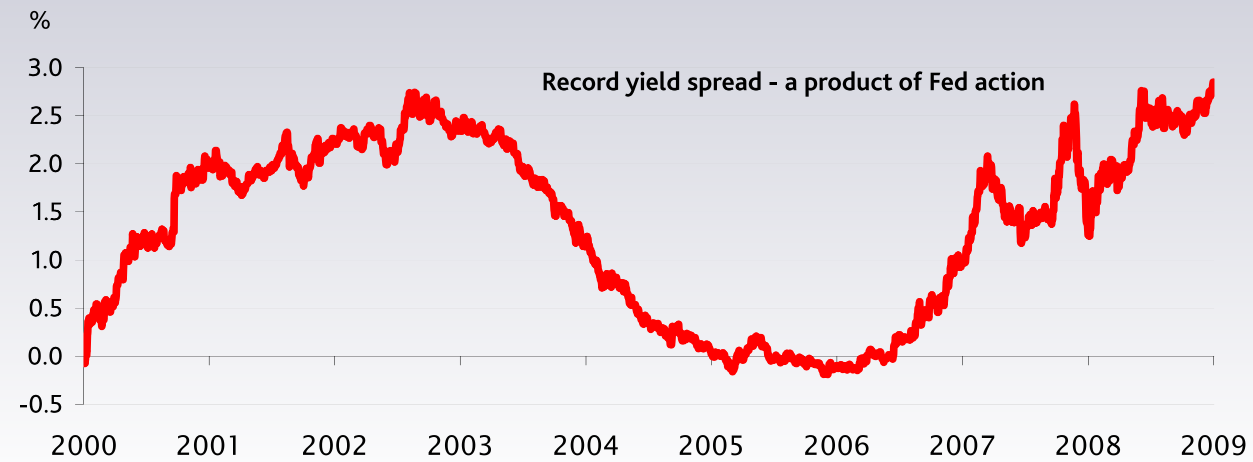

Source: Platinum and MSCI. Refer to Note 1, page 36.

## COPPER AND GOLD PRICE



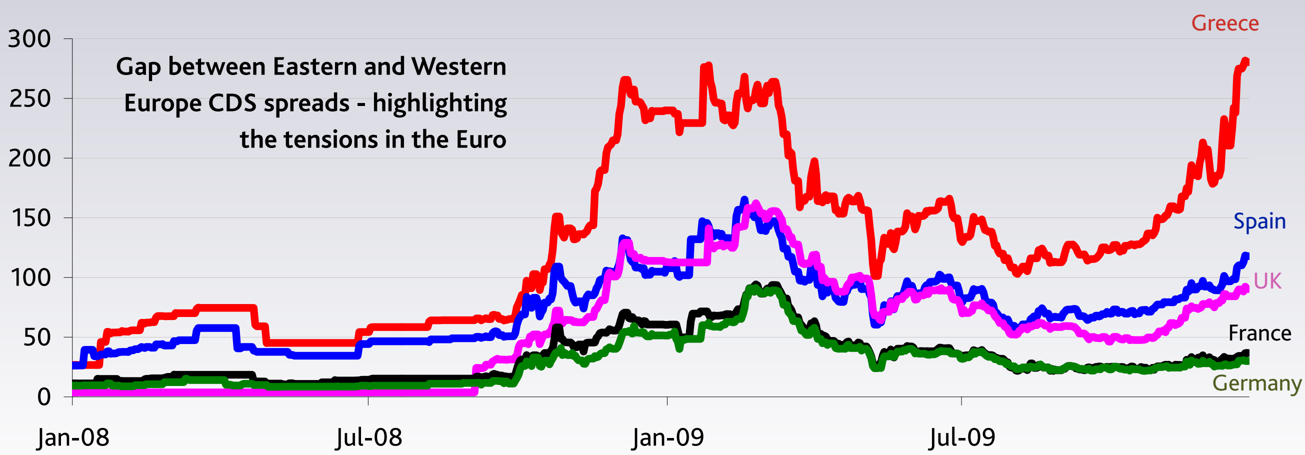

Source: Bloomberg

## US YIELD CURVE (YIELD 10 YEAR BONDS LESS 2 YEAR YIELD)



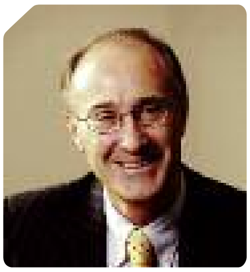

Source: Bloomberg

## 10 YEAR SOVEREIGN CREDIT DEFAULT SWAP (CDS) SPREADS




Source: Bloomberg

# PLATINUM INTERNATIONAL FUND



Kerr Neilson
Managing Director

## PERFORMANCE

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

In fact, the markets offered massive divergence both in a geographic sense and also by industry grouping as the tables on page 5 highlight.

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

Over the year, the Fund returned 19.7% in contrast to the MSCI World Index return of 4.4%. Of this outperformance, over 90% came from good stock selection and the remainder from our active currency management.

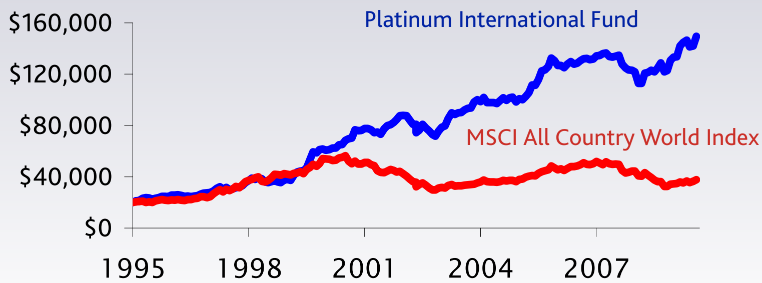
**DISPOSITION OF ASSETS**

| REGION | DEC 2009 | SEP 2009 |
|---|---|---|
| EUROPE | 26% | 26% |
| NORTH AMERICA | 25% | 22% |
| ASIA AND OTHER | 21% | 20% |
| JAPAN | 17% | 18% |
| CASH | 11% | 14% |
| SHORTS | 18% | 17% |

The Fund also has an 18% short position on Japanese Gov't Bonds.

Source: Platinum

**VALUE OF $20,000 INVESTED SINCE INCEPTION**
1 MAY 1995 TO 31 DECEMBER 2009




Source: Platinum and MSCI. Refer to Note 2, page 36.

| MSCI WORLD INDEX REGIONAL PERFORMANCE (A$) | | |
|---|---|---|
| REGION | QUARTER | 1 YEAR |
| BRAZIL | 11% | 77% |
| INDIA | 6% | 57% |
| EMERGING MARKETS | 7% | 38% |
| AUSTRALIA | 3% | 37% |
| KOREA | 0% | 33% |
| HONG KONG | 2% | 24% |
| UNITED KINGDOM | 5% | 11% |
| FRANCE | 0% | 2% |
| US | 4% | -2% |
| GERMANY | 0% | -3% |
| JAPAN | -5% | -18% |

Source: MSCI

| MSCI WORLD INDEX SECTOR PERFORMANCE (A$) | | |
|---|---|---|
| SECTOR | QUARTER | 1 YEAR |
| MATERIALS | 10% | 32% |
| INFORMATION TECHNOLOGY | 6% | 23% |
| CONSUMER DISCRETIONARY | 4% | 11% |
| FINANCIALS | -4% | 6% |
| ENERGY | 4% | 3% |
| INDUSTRIALS | 2% | 0% |
| CONSUMER STAPLES | 5% | -4% |
| HEALTH CARE | 6% | -7% |
| TELECOMMUNICATIONS | 1% | -10% |
| UTILITIES | 1% | -15% |

Source: MSCI

## CURRENCIES

Just when most had given up on the US dollar, it turned sharply in December. As we stated last quarter, it was not our faith in the currency that caused us to change posture and become positive, but the extreme negative and emotive nature of the commentary. Also contributing to our view are the structural problems facing both the Yen and the Euro. The Euro, in particular, faces the problem of needing to present a monetary policy for member States with very diverse economic prospects.

Longer term, the US dollar is unlikely to be a strong currency but for now it has depreciated far enough. It is cheap against other major currencies and is only expensive against its principal Asian trading partners, excluding Japan. Even so, as the quarter progressed, we cut holdings of our Asian currencies, the Yen and the Euro in favour of the US dollar, and now the Fund has US and related currency holdings of around 47%.

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

## SHORTING

With markets continuing to rally higher, shorting detracted from our returns. We closed some of the company shorts and have re-established some index shorts which reflect the fact that valuations have returned to enthusiastic levels which we believe will be difficult to justify.

We have reinstated our short position on the Japanese Government Bonds (JGBs). Timing remains the issue with this position. With deflation, bonds have seemed a reasonable investment for Japanese households but JGBs now account for 65% of household assets and the river of issuance continues. With the outstanding stock amounting to about ¥820 trillion, the household savings rate below 2% of GDP, and the 10 year bond yielding only 1.3% - under what circumstances will domestic investors continue to accumulate JGBs? Should the Yen enter a weaker trend, surely investing abroad will look more attractive, particularly if bond prices generally weaken further?

## CHANGES TO THE PORTFOLIO

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

**Yahoo!**, once seen as an internet goliath with a valuation to match, is now being priced as a has-been with concerns being expressed about its ability to stabilise its 'search' franchise, and also, that its portal is of declining relevance as behemoths like Google and Facebook grow in dominance of internet traffic. We have no problem with the momentum behind the latter two companies but, as we remind investors incessantly, our job is not necessarily to buy the best companies in the world but to find fine companies whose share prices do not reflect their inherent value. Half the current capitalisation of Yahoo! is accounted for by its listed affiliates, Alibaba and Yahoo! Japan. Its traditional portal, which offers proprietary news, sport and finance as well as hosting email accounts, still draws some 500 million unique regular users to its site. Moreover, unlike some destinations, Yahoo! can guarantee the innocence of its content and hence has a ready market with global brand display advertisers. In search, it has entered a profit sharing JV with Microsoft and this will make an important contribution to its cost-cutting drive and re-orientation led by a new management team. They have already made important headway in streamlining the organisation, re-designing the workings of the Yahoo! home page and have the sales team and IT knowledge to achieve at least respectable earnings. This is barely being recognised in the current price, never mind the potential for the group to fully exploit its underlying traffic flow.

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

**PLATINUM INTERNATIONAL FUND - TOP 20 STOCKS**

| STOCK | INDUSTRY | DEC 2009 |
|---|---|---|
| MICROSOFT CORP | TECHNOLOGY | 3.3% |
| CISCO SYSTEMS | TECHNOLOGY | 2.7% |
| HENKEL KGAA | CONSUMER | 2.6% |
| SIEMENS | ELECTRICAL | 2.3% |
| CHINA RESOURCES ENTERPRISE | HOLDING CO | 2.2% |
| YAHOO INC | INTERNET SOFTWARE/SERV | 2.2% |
| SANOFI-AVENTIS | HEALTH CARE | 2.1% |
| BANGKOK BANK | FINANCIAL | 2.0% |
| MERCK & CO | HEALTH CARE | 1.9% |
| MITSUBISHI UFJ FINANCIAL | FINANCIAL | 1.8% |
| SAMSUNG ELECTRONICS | ELECTRICAL | 1.8% |
| MICRON TECHNOLOGY | TECHNOLOGY | 1.8% |
| DENSO CORP | AUTO | 1.8% |
| JOHNSON & JOHNSON | HEALTH CARE | 1.6% |
| REED ELSEVIER | MEDIA | 1.6% |
| SAP AG | SOFTWARE | 1.6% |
| HENDERSON LAND DEV | PROPERTY | 1.5% |
| ANGLOGOLD ASHANTI | GOLD | 1.5% |
| PERNOD RICARD | BEVERAGES | 1.4% |
| HUTCHISON WHAMPOA | TELCO/TRANSPORT | 1.4% |

Source: Platinum

## COMMENTARY

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

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

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

- The durability of the global recovery, led by China.
- The Fed's interest rate tightening cycle.
- The behaviour of corporate earnings.
- Asset speculation and inflation.
- Currency movements and possible credit defaults.

We cannot bring ourselves to believe that it is going to be plain sailing. Though facing a different set of circumstances than Japan after its credit-induced debacle, the profligate countries of the west face the **twin challenges of achieving employment and credit growth**. Using the US as an example, the wide spread between labour incomes (pressured by record unemployment in excess of 10%) and actual consumer spending, which remains at <u>all time highs at over 73% of GDP</u>, is being further augmented by government hand-outs. Largely funding this savings imbalance is a corporate sector that has cut investment spending to a virtual care-and-maintenance basis, not seen since the 1930s. The hope is for a rehiring cycle to stabilise incomes as the year unfolds because the government certainly will not be in a position to <u>add</u> to these transfers.

This brings into focus a second aspect of government intervention. **To what extent have the activities of the central banks distorted capital markets** as they purchase government and other bonds in their efforts to swell bank liquidity and keep down the yield on longer dated paper? With this activity now in decline, **will there be an upward shift in the cost of term funding and a concomitant decrease in the valuation of risk assets like longer dated bonds and shares?** On balance the outcome looks precarious, though if the banks remain so cautious regarding lending, and indeed if borrowers continue to repay debt, the banks may well prove bigger buyers of government securities than some are presently arguing. With profligates having challenging fiscal shortfalls, the odds favour the belief that risk assets, which have basked in the bright rays of hope in the first phase of the economic recovery may now be exposed to the sapping translucence of reality. Preventing one from being dogmatic have been the positive surprises to date and, as we have emphasised in earlier quarterlies, we cannot know how people will respond in these uncertain times. Further, **capital expenditure across the G7 economies fell by an unprecedented degree** and as confidence and utilisation rates recover, the odds favour a strong snap-back. This will compensate for the more frugal behaviour of consumers.

The imminent **demise of the US dollar** and the related subject of virtually free US dollar borrowings, thanks to the Fed's intervention in the money markets, has been a media favourite in recent months. The first we dismiss as **highly premature** on account of the US dollar's central role in the currency baskets that are used by competing countries to manage their floating exchange rates. The so-called **carry trade and its effect on the valuation of risk assets has appeal, but is difficult to verify**. Borrowing from US banks has in aggregate declined from a year ago from about US$7.6 trillion to around US$7 trillion now. While domestic households and businesses have repaid debt, foreign borrowers have increased their borrowings in the last two quarters but as a proportion of the whole, borrowings are very modest. Admittedly foreigners have been very active in the use of the commercial paper markets with outstanding US commercial paper now back to the levels of the first half of 2008 at $280 billion from a low of $120 billion in March 2009. Our sense is that there is indeed **some ripple effect** from the Fed's purchase of longer dated paper **which induces investors to rebalance their portfolios with a blend of somewhat riskier and higher yielding securities**. Even so, we attribute the current enthusiastic response to risk assets more to the global rise in liquidity than purely the workings of low interest rates governed by the Fed. Last quarter we highlighted the surge in property values in China and the growth of credit which has risen at three times the pace of economic activity.

Though there is surplus manufacturing capacity in the developed countries, we suggest that **inflation cannot be ruled out**. The service sector has grown in importance in Western economies and there are already signs of social disquiet and work stoppages which may be a harbinger of more to come. Without related productivity gains, we can readily draw a scenario of sluggish growth, rising social disharmony and wage demands from those who provide core services in a modern economy. The shenanigans of the investment banking leviathans (involving State transfers and staunchly defended bonus structures) has caused social outrage and perhaps damaged the public's confidence in the workings of the system. If credit and employment do not rescue the profligates from stagnation, we would not bet on the tame social order that has marked the Japanese public's response to their economic malaise[1].

## OUTLOOK

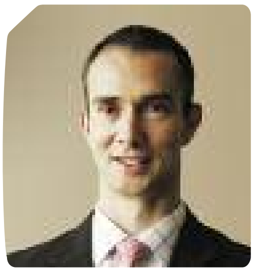
Even though markets have recovered significantly and expectations are optimistic, we feel we should be able to continue to make further gains in 2010.

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

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

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

# PLATINUM UNHEDGED FUND



**Jacob Mitchell**
Portfolio Manager

## PORTFOLIO POSITION

Changes over the last 12 months to the portfolio composition:

**DISPOSITION OF ASSETS**

| REGION | DEC 2009 | DEC 2008 |
|---|---|---|
| WESTERN CONSUMER CYCLICAL | 23% | 18% |
| BRICS* CONSUMPTION | 16% | 24% |
| DEFENSIVE | 13% | 4% |
| JAPANESE DOMESTIC | 10% | 11% |
| GOLD | 8% | 7% |
| CAPITAL EQUIPMENT | 8% | 11% |
| COMMODITY/PROCESS | 7% | 10% |
| ALTERNATIVE ENERGY | 5% | 4% |
| OTHER | 2% | 2% |
| TOTAL LONG | 92% | 91% |

* Brazil, Russia, India and China

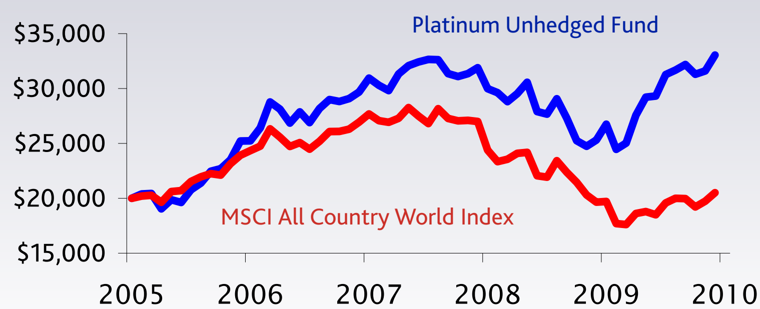
Source: Platinum

**DISPOSITION OF ASSETS**

| REGION | DEC 2009 | SEP 2009 |
|---|---|---|
| NORTH AMERICA | 27% | 24% |
| ASIA AND OTHER | 24% | 27% |
| JAPAN | 24% | 22% |
| EUROPE | 15% | 16% |
| AUSTRALIA | 2% | 2% |
| CASH | 8% | 9% |

Source: Platinum

**VALUE OF $20,000 INVESTED SINCE INCEPTION**
31 JANUARY 2005 TO 31 DECEMBER 2009




Source: Platinum and MSCI. Refer to Note 2, page 36.

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

Over the last 12 months the Fund rose 31%, outperforming the MSCI All Country World Index (A$) benchmark by 26% and over the past quarter the Fund rose 3%, in line with the benchmark. Since the Fund was opened to the public almost three years ago, it has returned 8% versus a 24% decline in the benchmark (cumulative three year return to 31 December 2009). As a fully invested, long only Fund our goal is clearly to make absolute returns for investors, however, with market valuations no longer in the cheap zone, our first priority will be preservation of capital.

A year ago we conveyed how the Fund had been positioned for a strong rebound in the more cyclical parts of the market (eg. technology, commodities, property) versus defensive areas (eg. utilities, telcos and pharma) and that we had concentrated our bets in Asia. This positioning is still working, although, similar to last quarter, we continued to unwind some of the more aggressive holdings. The major investments/ideas that made money this quarter included the same mid-cap stars from last quarter as well as some of our long dormant mega-caps (Merck & Co, Microsoft), including:

- Commodity/Process eg. Canfor Pulp.

- Alternative Energy eg. Veeco Instruments.

- Gold eg. Resolute Mining.

- Asia ex Japan consumption plays eg. China Resources Enterprise, Denway, Gome Electrical Appliances.

- Western Consumer Cyclicals eg. Micron.

In terms of changes in thematic composition, we reduced Brazil, Russia, India and China (BRIC) Consumption (sold Galaxy Entertainment) and Commodity exposure (sold Domtar) by 5.5% and invested the proceeds in a combination of Japanese export stocks (Shin-Etsu Chemical, Ushio – see over) and a US-based turnaround situation (Electronic Arts – see the Platinum International Fund Report).

Conceptually, we took the view that if the rebound in the emerging market economies was as strong as their stock markets were discounting, then greater return would be found in beaten down Japanese and American exporters that were yet to participate in the recent euphoria. We contend that many of the most undervalued so-called “BRIC” plays are now to be found in Western markets.

Over the last six months, the Japanese equity market has underperformed the global market by 18% and whilst our significant exposure here has cost in the short-term, it is yet to result in underperformance of the Fund. The Bank of Japan was one of the few central banks globally to actually shrink its balance sheet over the duration of the global financial crisis. We think this cold turkey approach to economic management may be ending in the face of rising unemployment and growing domestic political pressure. This places the Japanese equity market in an interesting position where monetary policy may actually be loosening when in many other markets tightening has already commenced.

In terms of how markets often get bored with long-term developments just at the time when an application is going mass market, we highlight our investment in Ushio, a company that dominates the market for high-powered discharge lamps used in LCD lithography (a cyclical business) and the digital cinema projector equipment (a growing business). The problem for Ushio is that digital cinema has been a compelling story for at least five years (a virtual eternity by investment world standards) – studios could beam new releases to cinemas around the world for very little cost with less risk of piracy and the cinemas could avoid traditional film degradation (those squiggly lines that develop on old prints) and gain the ability to screen 3D films and live events. The reality, however, was that no cinema chain was willing to spend six times as much for a projection system that represented unproven technology. With a decline in the price of equipment and greater availability of 3D content (eg. James Cameron’s recent *Avatar* blockbuster and Pixar’s *Up*), and a proven record of 3D films bringing in three times the revenue of a standard film, US cinema chains are now falling over themselves to embrace the new technology. 20% of all global screens (concentrated in the US) have now gone digital and Ushio has increased its projector production capacity by a factor of five times on a year ago to accommodate demand. We think this is a compelling global growth story but find very little stock market interest. Why? Maybe because it is listed in Japan (or maybe we are wrong and we have missed some technology substitution threat). Time will tell.

## OUTLOOK

There is some risk of a double dip outcome in Western markets simply because debt levels are unsustainably high. Whilst the Federal Reserve balance sheet is now shrinking (largely due to the normalisation of the commercial paper market), we suspect that at the first sign of trouble, the punch-bowl will be replenished. The Japanese policy of offsetting the worst of their twenty year deflationary bust via corporate socialism and government spending has had a somewhat negative effect on entrepreneurial risk appetite. In a similar manner, the West's inability to deal with the too-big-to-fail structure of its financial system may have unintended, and somewhat negative long-term consequences. We will continue to hold a large position in gold stocks as protection against ongoing tendencies by the West to deal with its debt problems via currency debasement, rather than allow a politically unpopular correction in domestic asset prices to clearing type levels.

The million dollar question for global equity investors is whether the growth impetus in emerging markets is now strong enough to offset the deflationary tendencies elsewhere. Whilst we have no definitive answer, we can monitor the information flow for signs of confirmation or denial.

In contrast with December 2008 when we positioned the Fund for a strong rebound in Asia ex Japan, we have now positioned the Fund for a strong rebound in Japan by increasing our exposure to this market to 24%. Rather than being super-bulls on Japan (we are aware of the structural issues), we currently view it as the least worst alternative available in the major markets and see genuine neglect in the valuations of high quality companies and potential for outperformance from our specific holdings.

# PLATINUM ASIA FUND

Andrew Clifford
Portfolio Manager

## PERFORMANCE

| PERFORMANCE (compound pa, to 31 December 2009) | QUARTER | 1 YR | 3 YRS | 5 YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| PLATINUM ASIA FUND | 4% | 40% | 9% | 17% | 22% |
| MSCI AC ASIA EX JP INDEX | 5% | 33% | 0% | 10% | 13% |

Source: Platinum and MSCI. Refer to Note 1, page 36.

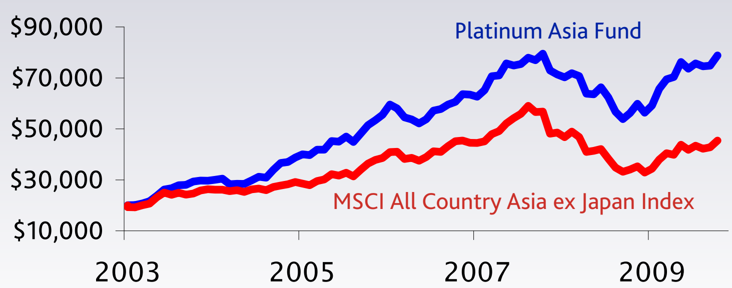
The rebound in Asian markets continued this quarter with markets appreciating 6% during the period, a figure that was slightly lower when translated into Australian dollars. Having sold-off in the September quarter due to concerns about tighter monetary policy, Chinese A shares led the way rising by almost 18%. At the weaker end of the spectrum was the Vietnamese market which fell 14% as the country struggled with a balance of payments crisis.

The Fund's performance slightly lagged the market this quarter, although it remains well ahead over the last 12 months. Financial and property stocks were generally poorer performers across the region this quarter as a result of expectations of rising interest rates. A number of the Fund's larger holdings in these sectors, such as KB Financial (Korean bank, down 1.3%), Bangkok Bank (down 4.1%), and Korean Investment Holdings (Korean broker and asset manager, down 4.3%), held back the Fund's performance. Better performing stocks included our more economically sensitive businesses such as Denway Motors (Chinese auto producer, up 43%) and Gome Electrical (Chinese retailer, up 36%).

| DISPOSITION OF ASSETS | | |
|---|---|---|
| REGION | DEC 2009 | SEP 2009 |
| CHINA (LISTED EX PRC) | 19% | 17% |
| CHINA (LISTED PRC) | 7% | 7% |
| TAIWAN | 7% | 7% |
| HONG KONG | 6% | 8% |
| GREATER CHINA TOTAL | 39% | 39% |
| KOREA | 13% | 12% |
| INDIA | 9% | 3% |
| THAILAND | 8% | 10% |
| MALAYSIA | 6% | 7% |
| SINGAPORE | 5% | 6% |
| INDONESIA | 3% | 4% |
| PHILIPPINES | 3% | 3% |
| CASH | 14% | 16% |
| SHORTS | 0% | 0% |

Source: Platinum

**VALUE OF $20,000 INVESTED SINCE INCEPTION**
3 MARCH 2003 TO 31 DECEMBER 2009




Source: Platinum and MSCI. Refer to Note 2, page 36.

## CHANGES TO THE PORTFOLIO

United Spirits was reintroduced to the portfolio this quarter. The Company is the leading spirits producer in India, and by volume is the second largest in the world after Diageo. The Company's share price had been under pressure over concerns regarding the financial state of sister company Kingfisher Airways (India's no. 2 airline). Although the Indian airline industry had been deeply depressed as a result of weak volumes and prices, the strengthening domestic economy suggested that better times were ahead. The Fund also purchased shares in Jet Airways, the Country's no. 1 airline.

China Railway Construction is a privatised state owned entity, that as its name suggests, is a specialist railway construction company. The ongoing build out of the rail and metro networks in China will provide the Company with significant workload for some time to come. More importantly though are the Company's plans to improve cost controls that should lead to a significant improvement in profitability. Another new holding is Taewoong, a Korean manufacturer of heavy forgings for industrial plants, marine engines, and wind turbines. While Taewoong should do well on the back of ongoing global demand for wind turbines, the Company has a history of successfully entering new markets, its latest focus being on forgings for nuclear power plants, which would represent a large and growing market for the Company.

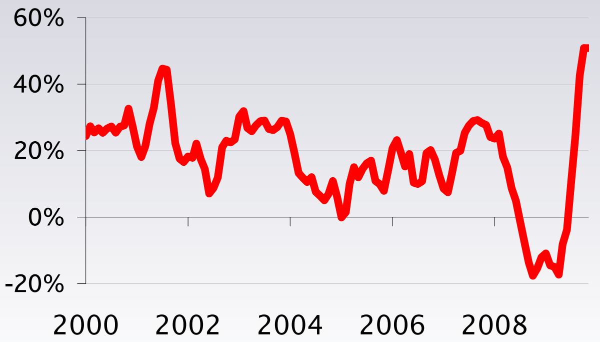
Acquisition of these (and other) new holdings during the quarter have been funded through the sale of positions in Hang Lung (HK and China property), Dongfeng Motors (China auto manufacturer) as well as net inflows into the Fund. The Fund's cash position remains little changed from last quarter at 14%.

## COMMENTARY

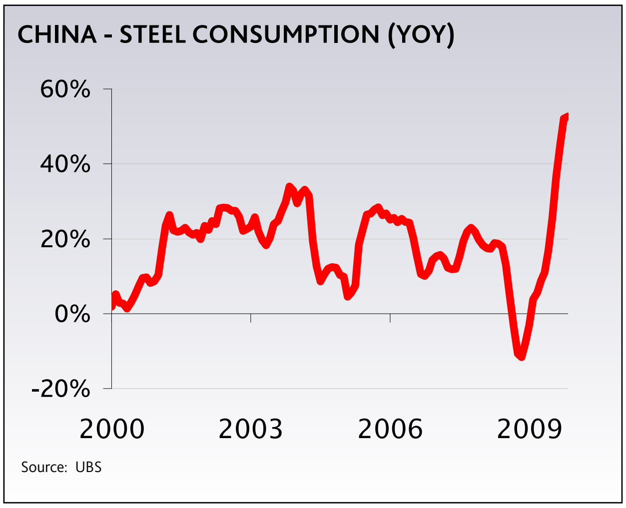
In our last quarterly report we discussed how the rapid economic recovery across the region was already giving rise to discussions about when central banks would move to increase interest rates or otherwise tighten monetary policy. These discussions were even before the potential additional impetus economies were due to receive from infrastructure spending that was only just getting underway and the potential rebound in export markets as inventories were rebuilt in developed economies. In addition, in the case of China, the resurgence in demand for residential property was expected to drive a pick-up in construction activity providing a further source of growth.

Events have continued to unfold much along these lines. Buoyant property sales in China have resulted in a significant pick-up in construction starts (see chart below). Auto sales in that Country have continued to boom with over 13 million vehicles expected to be sold in 2009, an increase of over 36% for the year, making China the world's largest car market. And while exports across the region remain below peak levels of 2008, there has generally been a steady improvement across the course of the year. Put together with accelerated infrastructure investment by government in many countries and healthy private capital expenditures in China and India, the picture is indeed a rosy one! The picture that perhaps tells the story the

CHINA - FLOORSPACE UNDER CONSTRUCTION (YOY)




Source: UBS




best is the remarkable increase in demand for steel in China (see chart above) which now equates to an extraordinary 590 million tonnes per annum.

The problem of course is that such rapid growth leads to concerns about inflation. Although, with the exception of India, the official inflation numbers are yet to reflect any significant increases in price levels, the trend for higher prices across a broad range of commodities in the last months of the year suggests that it is only a matter of time before they do. Indeed in China, surveys by China Reality Research suggest a clear increase in inflationary expectations by consumers. One of the more amusing responses to the survey was from a 38 year old man from Mianyang, Sichuan province:

> *"The Rmb today is worth less than it was yesterday. If you have Rmb100 in your pocket now, what can you buy with it? All prices are rising, and that's why I think it's a bubble economy. The Rmb might as well be the paper money you burn to honour your dead relatives."*

There are two key areas where price changes are likely to be the cause of some consternation for policy makers. In India, food prices recently registered increases of 20% to those one year ago, and although these numbers were impacted by poor harvests, it was the issue of higher food prices only two years ago that drove many central banks around the region to tighten policy. In China, property prices have been moving up, particularly in the bigger cities where price moves of more than 50% have been seen in mid-to-high end properties. Affordability of property is a significant political issue in urban China and authorities are already moving to dampen down this market with various measures, just as they have in the past.

Simply, one should expect to see a backing away from the pro-growth policies of central banks and governments that were put in place in the wake of the global financial crisis. It is also possible that the region may start to experience a strengthening of the various currencies as the US dollar (to which many of them are tightly linked) has shown some signs of ending its persistent depreciating trend of the last 12 months or so. If the regions' currencies were to show some strength in the coming months this would also act to slow economic growth. Given the momentum in growth, tighter policy and stronger exchange rates are unlikely to have much of an impact in economic terms in the year ahead. However, stock markets will continue to be wary of risks associated with inflation and likely policy responses. It is perhaps not surprising that in a quarter where the economic news could not have been much better, regional stocks have failed to gain much ground.

One country that is following a different path to the rest of the region is Vietnam, the high-flying market of the pre-global financial crisis period. At the end of November, due to sustained selling of the Dong, the central bank was forced to devalue its currency by 5% and increase interest rates by 1%. Despite an apparently healthy rebound in economic activity as a result of monetary and fiscal stimulus, the Country has a high current account deficit (expected to be approximately 9% of GDP in 2009) which has become problematic given a collapse in foreign investment. This is not a dissimilar position to that in which much of Asia found itself in 1997 when it suffered a major balance of payments crisis. Other than a strong recovery in exports the most likely way out of such a situation is a collapse in domestic demand, otherwise known as a recession. Of course such an eventuality would potentially result in interesting investment opportunities. We will be watching this market carefully in the months ahead. Currently the Fund has no direct exposure to the Vietnamese market.

# PLATINUM EUROPEAN FUND

**Clay Smolinski**
Portfolio Manager

## PERFORMANCE

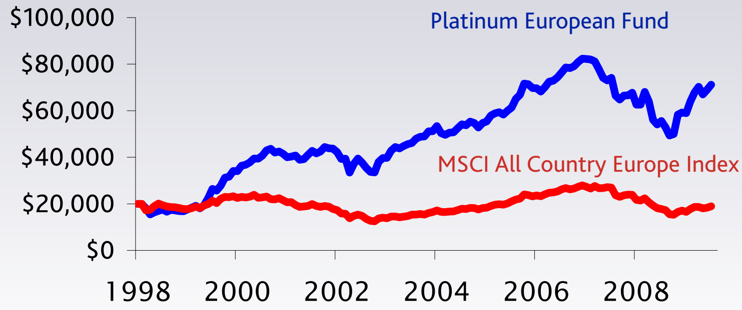
In Australian dollar terms, the Platinum European Fund returned 1.3% for the quarter compared to 1.6% for the MSCI All Country Europe index. The returns of the Fund for the six and 12 month period were 21% and 28% respectively versus 15% and 7% for the index.

The standout sector for the quarter was Metals and Mining (Anglo-American +35%, Rio-Tinto +26%, Norsk Hydro +26%) boosted by higher commodity prices (price increases over the quarter: Aluminium +22%, Copper +17%, Coal +20%) and in Anglo's case buoyed by Xstrata's £41 billion merger proposal. Other areas of strength were the Agricultural stocks (Norwegian nitrogen fertiliser producer Yara +46% and Swiss crop protection and seed producer Syngenta +23%) and many of the consumer brand stocks (SABMiller +20%, Nestlé +15%).

In contrast to the previous six months the clear area of underperformance was the Financials (Barclays -26%, ING -25%, Unicredito –16%). Over the quarter the Bank of International Settlements released their first discussion papers over future regulation of the banking sector. The changes were similar to our expectations: requirements for more common equity, lower total leverage and limits to the extent banks can rely on 'wholesale' (ie. non-deposit) funding. All these measures are designed to reduce the risk of the sector and protect the depositor to the possible detriment of profitability.

On the currency front, the Australian dollar strengthened modestly against most of its European counterparts, rising 3% against the Euro and Swiss franc respectively, and 2% against the Norwegian kroner.

**VALUE OF $20,000 INVESTED SINCE INCEPTION**
1 JULY 1998 TO 31 DECEMBER 2009




Source: Platinum and MSCI. Refer to Note 2, page 36.

## COMMENTARY

### Company visits

The November research trip saw us meet 21 companies during our tour through France, Switzerland, Germany and the UK, and while the nature of the industries and themes/situations explored during the trip were quite diverse, the common thread among the meetings is that all had an appealing valuation angle and the majority were 'new' stories, in the sense that most were not currently held by the Funds.

One industry explored was global cement. The valuations of the global cement players (Lafarge, Holcim, Heidelberg Cement and Cemex, three of which are headquartered in Europe) were suitably punished during the credit freeze, as the reality of collapsing demand and overleveraged balance sheets came to the fore. The high debt load that each of the top four carry was the product of a decade long 'global contest', that saw aggressive consolidation across the sector and a build-out of kiln capacity in the developing nations. To illustrate, the percentage of global (ex China) cement capacity controlled by the top ten majors has increased from 16% in 1988 to 50% today, whilst sales in emerging markets now account for over 60% of Lafarge's and Holcim's operating profits. In most geographies cement demand by volume is down between 10% to 40% (the stark example being the US, where cement consumption has fallen from a peak of 120 million/t pa in 2006, to 75 million today) however, giving some credence to the idea that consolidation has led to far better price discipline in the industry, cement pricing has remained very stable across the board, with prices flat to slightly up in most regions.

Given we have just experienced a boom in global construction is there a case to be made for owning these diversified cement producers? One thesis may be this: on average the Western cement markets (US, Western Europe, Australia), due to consolidation and reinforced by the difficulty in obtaining building/quarry permits for new capacity, exhibit oligopoly-like market structures. Whilst a recovery of volumes back to levels seen in 2007 will take some time, we should see price discipline and strong cash generation. The emerging markets carry more risk of price wars or political disruption, but given the low cement consumption per capita (India, Latin America and Africa cement consumption per head is a half to two thirds that of the developed world), their infrastructure needs and a decent supply/demand balance (ex China and the Middle East where there looks to be capacity overbuild), these markets should be a growth avenue over the medium term. The above factors, together with relatively modern plant and the aforementioned high debt loads across the sector may see the cements enter a period of strong cash-flow and de-leveraging in the near term and then benefit from a Western market recovery and emerging market growth further out.

## PORTFOLIO CHANGES AND OUTLOOK

During discussions with management over the recent trip, some key themes were noted:

1. tempered expectations for businesses exposed to Western demand, with the focus usually around cost cutting efforts, reduction of capital expenditure and other self help measures;

2. a strategic awareness (including plans to expand and acquire other businesses) of the benefits of the growth in the Brazil, Russia, India and China (BRICs) nations.

This focus is likely to lead to new opportunities. We continue to investigate areas like retail, media and defence where both growth expectations and valuations remain low. However, where we can buy good companies that have a meaningful percentage of their sales from emerging markets *at an attractive price* we have been happy to add them to the portfolio.

One such addition over the quarter was **CFAO**. The business is familiar to us, being a part of the **PPR** group (French retail/and luxury goods), who sold a 50% stake via an IPO in order to reduce the company's debt burden. CFAO is an African new car dealership and pharmaceutical distribution business whose trading operations within the region date back 160 years. The potential for the Company is huge given what elevated resource prices and growing foreign investment by the likes of China can do to boost the wealth of the African continent, which will in turn increase the rate of African car ownership and pharmaceutical use from pitifully low rates today. However, we are quick to remind ourselves that in the face of the market getting excited over these stories, it is still 'Africa' and CFAO needs to be tracked very much in tandem with resource prices!

Other additions to the portfolio include a position in the Swiss pharmaceutical giant **Novartis** and topping up our holdings in **PPR** and satellite operator **SES**. Funding for these purchases has come from trimming down some of our better performing holdings such as **JCDecaux** and **MTU Aero Engines**.

**DISPOSITION OF ASSETS**

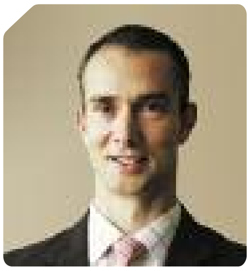
| REGION | DEC 2009 | SEP 2009 |
|---|---|---|
| BELGIUM | 3% | 3% |
| FINLAND | 2% | 4% |
| FRANCE | 26% | 24% |
| GERMANY | 38% | 39% |
| ITALY | 2% | 2% |
| NETHERLANDS | 3% | 3% |
| NORWAY | 2% | 2% |
| SWEDEN | 3% | 3% |
| SWITZERLAND | 3% | 1% |
| UK | 7% | 5% |
| CASH | 11% | 14% |
| SHORTS | 4% | 4% |

Source: Platinum

The outlook for markets always needs to be expressed with an eye on price and European markets are no longer significantly undervalued. Investors should not expect further broad advances of the nature we have seen over the last nine months. That said, there is still enough uncertainty around end-demand and profitability over the next two years to create pockets of opportunity for stock-picking. The valuations across the Fund's holdings remain relatively modest.

Currently the European Fund is 89% long, 11% cash and 4% short, giving a net 84% invested position.

# PLATINUM JAPAN FUND



Jacob Mitchell
Portfolio Manager

## PORTFOLIO POSITION

Changes over the last 12 months to the portfolio composition:

**SECTOR BREAKDOWN**

| SECTOR | DEC 2009 | DEC 2008 |
|---|---|---|
| DOMESTIC | 47% | 45% |
| TELCO, IT AND INTERNET | 14% | 5% |
| RETAIL AND SERVICE | 13% | 14% |
| FINANCIALS | 11% | 13% |
| REAL ESTATE & CONSTRUCTION | 9% | 13% |
| EXPORT | 46% | 41% |
| TECH/CAPITAL EQUIPMENT | 19% | 19% |
| ALTERNATIVE ENERGY | 10% | 3% |
| COMMODITIES | 9% | 10% |
| AUTOS | 8% | 9% |
| GROSS LONG (EX LONG DERIVATIVE) | 93% | 86% |

Source: Platinum

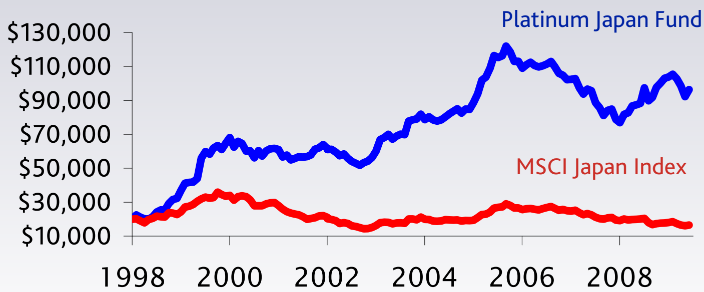
**DISPOSITION OF ASSETS**

| REGION | DEC 2009 | SEP 2009 |
|---|---|---|
| JAPAN | 93% | 83% |
| KOREA | 4% | 6% |
| CASH | 3% | 11% |
| SHORTS | 18% | 14% |

The Fund also has an 18% short position in Japanese Gov't Bonds.

Source: Platinum

**VALUE OF $20,000 INVESTED SINCE INCEPTION**
1 JULY 1998 TO 31 DECEMBER 2009




Source: Platinum and MSCI. Refer to Note 2, page 36.

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

Over the past 12 months the Fund rose 9%, outperforming the MSCI Japan Index (A$) benchmark by 27%, and over the past quarter the Fund fell 6% underperforming the benchmark by 1.5%. Point-to-point over the quarter, the market did very little, though two major headwinds drove the Topix back to a low of 811 in late November (having reached an August closing high of 975):

- A significant number of highly dilutive secondary placements, typically by low quality companies with weak balance sheets or by companies with a careless approach to shareholder capital management.

- A spike in the Yen to 86 that has since largely reversed.

Similar to last quarter, there was little place to hide as the Yen strength put pressure on all but the most China centric of the export stocks and the negative feedback into domestic consumption put pressure on the rest of the stock market. Accordingly, our best performers were once again, by nature, very specific stories (CyberAgent, Promise, Nitto Denko) rather than broad sectoral bets. Though our equity and Japanese Government Bond (JGB) shorts detracted marginally, the real damage was on the long-side. Our weakest stocks were concentrated in the mid-cap real estate, construction and specialty retail area. We returned to Japan for two weeks of company visits and were pleasantly surprised by the confidence exuded by many of our large holdings. In the case where certain stories were not on track, we have cut the position (stock count fell from 79 to 67) to refocus the portfolio on higher conviction ideas.

As mentioned last quarterly, we had been finding opportunities in the internet content area with CyberAgent the key Fund investment. Our due diligence on the other stocks in this area was still in progress when the whole sector started to perform (stocks like Mixi, the Japanese equivalent of Facebook and social gaming sites Dena and Gree). Hence, we failed to fully maximise return from our efforts. By way of background, CyberAgent owns the blog site Ameba, the fifth most visited Japanese website offering a user experience akin to Facebook, Twitter and Second Life, all in one. With a membership base of 7 million growing 70% pa, the company has been quite clever in employing celebrity bloggers to attract interest, dominated by women in their late 20s through to early 40s – a key demographic for advertisers. In early 2009 the company launched a virtual world that is proving extremely popular and adds to advertising revenues by allowing users to buy virtual "experiences" (the Tamagotchi fad is the best analogue for this). CyberAgent is operating at the edge of a new entertainment frontier - we think it will remain high growth for some time to come.

As we could see no real justification for the Yen's spike to 86, we took advantage of the equity sell-off, lifting our gross (net) exposure to the market from 89% (75%) to 97% (79%) by:

- Covering our shorts on certain Japanese export cyclicals and replacing them with a larger short on the South Korean KOSPI Index (increase from 6% to 8%), a country that has benefitted from a large currency devaluation against Japan that should start unwinding (the reason why we own the South Korean currency, the Won, rather than the stock market).

- At a Topix Index level of 839 (versus the recent 811 low), we invested 0.25% of Fund capital in an index call option (ie. simplistically we make money if the index level closes above 950 any time before June 2010 but our downside is limited to the initial investment).

- Adding to our favourite export holdings taking total export exposure from 39% to 46%, including:

    - Technology eg. Ushio (high powered light sources used in LCD and semiconductor production), Nitto Denko (LCD polarising film), Shin-Etsu (semiconductor wafers) and Murata (multi-layer ceramic capacitors used in almost all electronic equipment).

    - Alternative Energy eg. Tokuyama (Polysilicon manufacturer) and Hirano Tecseed (coating equipment used to make lithium ion batteries and industrial films).

    - Autos eg. Toyota Motor.

Whilst limited by space to fully explain the logic behind each of these investments, we will attempt to provide some brief context:

Firstly, most of these exporters are global leaders; secondly, valuations are at discounts to peers for comparable levels of profitability; and thirdly, their end markets are either experiencing cyclical or secular growth. To this last point, we are positive at a global level on continued tightness in the consumer technology supply chain due to:

- Proliferation of new products (LED backlit LCDs, smart phones, net-books, tablet PCs, and other mobile internet devices).
- PC upgrade super-cycle driven by Windows 7 and renewed corporate IT spending.
- Brazil, Russia, India and China (BRIC) consumption growth offsetting the worst of the Western world consumer retrenchment.

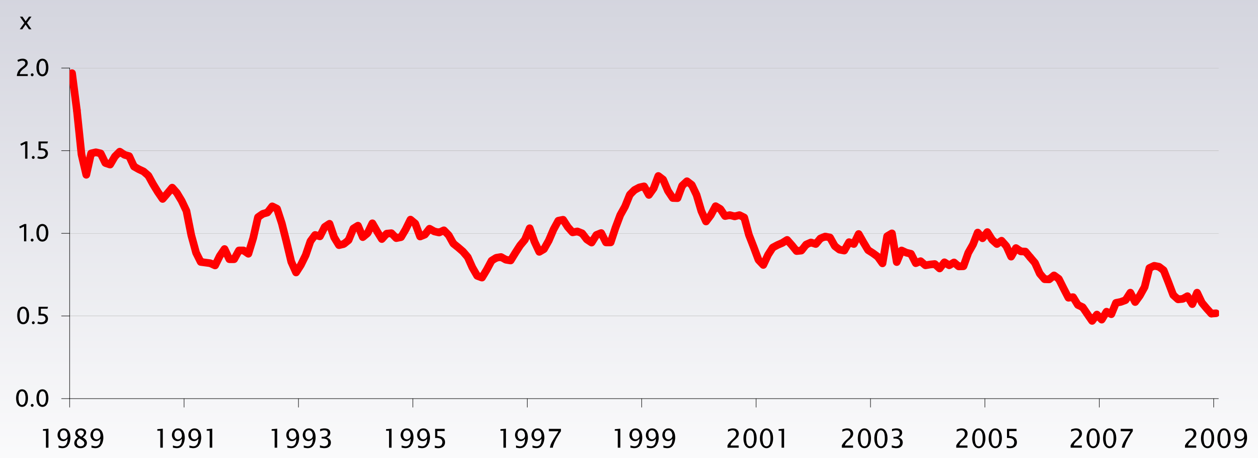
Within the Japan Fund we have approximately 13% direct exposure to this theme.

On the domestic front, we sold our entire position in KB Financial (leading South Korean bank) not that the stock was over-valued, but rather because we were finding irresistible value in the Japanese consumer finance companies, specifically Promise Company. We will leave this story for another time.

## CURRENCY

From point-to-point over the quarter there was very little change in the key currency rates that the Fund is exposed to: Japanese yen, Korean won and the US dollar. However, as the generalised sell-off in the US dollar intensified, we increased our exposure to the US dollar (and its proxies) from 19% to 26%, largely at the expense of the Australian dollar and Korean won. As Kerr elucidates in the Platinum International Fund report, our preference for the US dollar has more to do with our rejection of the emotive arguments regarding the Fed's money printing activities (when all evidence suggests that broad money in the US continues to contract as households pays down debt) rather than having any real confidence in the US dollar; our choice could be described as a least worst alternative. At 43% the Fund remains heavily underweight the Yen as our proprietary models suggest it is over-valued on several fundamental measures, including: purchasing power parity, relative GDP growth and relative money supply growth. Further, momentum factors are also working against it as we think the general sell-off in the US dollar against Western currencies is complete.

**JAPAN VERSUS ASIA PACIFIC EX JAPAN - RELATIVE PRICE TO BOOK**




Source: Factset

## OUTLOOK

The Nikkei Average Index hit an all time high on 29 December 1989 closing at 38,915.87 – twenty years later (almost to the day), the index is hovering just above 10,000. Unsurprising for long suffering Japanese stock investors, the outlook for Japanese equities remains finely balanced. We continue to operate with a number of potential scenarios in mind and would guide investors to examine the incremental information flow for signs of confirmation or denial rather than being too definitive. We still see an external inflation event as the most likely catalyst for driving domestic investors out of over-valued nominal assets such as government bonds and into what has become a very cheap stock market.

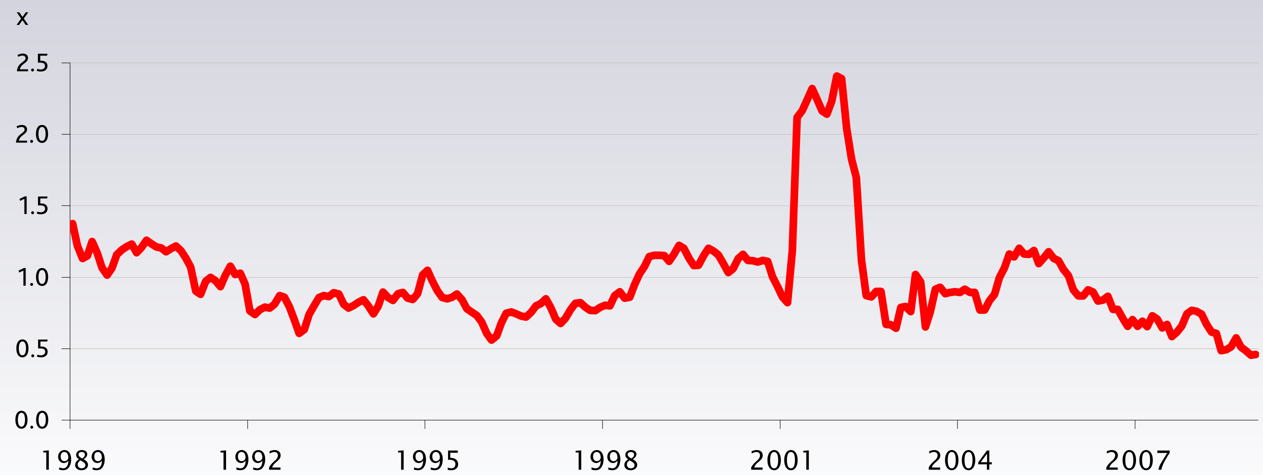
We wrote in the last quarterly that the recently elected DPJ Government would need to loosen monetary policy to combat deflation and the ever strengthening Yen if they wished to win Upper House elections scheduled for the second half of 2010. Our prediction is unfolding with the Government expressing frustration with the Bank of Japan (BOJ) Governor Shirakawa's deflation tolerance. We suspect this will end with the BOJ adopting a more meaningful pro-reflation stance incorporating both inflation targeting and a return to quantitative easing (central bank monetisation of fiscal deficits).

On a longer term basis, Japan desperately needs to adopt rigorous micro-economic reform eg. deregulation of domestic sectors such as health care, transfer of the social safety net from business to government, progressive social and immigration policy and so on. There are some minor encouraging signs on this front from the DJP led coalition Government, including:

- Moves to diminish bureaucratic power: firstly, by preventing/punishing bureaucratic press leaks to key establishment newspapers that has led to an extremely unhealthy relationship between Japan's Fourth Estate and the bureaucracy; secondly, reformation of the law-making process where bureaucrats were responsible for not only drafting laws, but also policy origination, to a more Western style where cabinet has a strong policy role. To the surprise of many, it has now become common for televised parliamentary committees to interrogate bureaucrats on how and why spending programs have been approved and implemented; somewhat of a surprise for a consensus based society.

- The DPJ has appointed Heizo Takenaka to advise them. This is a positive surprise on many levels: firstly, he was a progressive member of Koizumi's LDP Cabinet ie. akin to the Rudd Government inviting Peter Costello to advise on economic policy; secondly, Takenaka was a key advocate of Postal privatisation, a Bank and Life insurance behemoth (controlling US$3.3 trillion in assets, approximately 20% of total household

JAPAN VERSUS ASIA PACIFIC EX JAPAN - RELATIVE PRICE TO CASHFLOW




Source: Factset

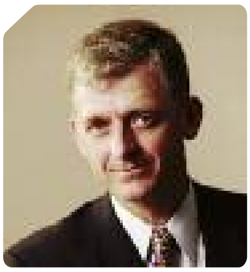
savings) that would benefit itself and the country if it was run along commercial lines (rather than a buyer of last resort of Japanese Government paper).

At a global level, extremely contradictory forces are at work: an increasingly pro-inflation environment in the East (or the Emerging World) counterbalanced by a deflationary output gap and unemployment in the West. In this sense, the US and China's inability to agree on climate change policy is a potential precursor to a more dangerous disagreement regarding currency and trade policy. However, we remain hopeful that protectionism and the destruction of global wealth that would ensue, is avoidable by the adoption of enlightened self-interest by the superpowers. With the Western consumer somewhat diminished, China must increasingly rely on domestic sources of demand and the limiting factor to its growth will be inflationary pressures that are best managed via currency appreciation. Hence, global imbalances should be somewhat reconciled by the appreciation of the Renminbi (and other pegged Asian and emerging market currencies) against Western counterparts. Once again, we would urge investors to monitor the information flow on this key issue as signs of failure significantly increase the risks of another deflation debt bust in the West.

It is worth remembering that the flight time from Beijing to Tokyo is 3.5 hours – we don't believe that China (and the BRICs) can undergo a transformational consumption boom without some ray of light reaching Japan. And whilst the Japanese market hasn't missed the obvious BRIC plays eg. Komatsu, the well-known manufacturer of mining heavy equipment, is priced at approximately twice the market multiple, we are finding smaller, less obvious China plays with extraordinarily cheap valuations. Companies below $3 billion market capitalisation have almost completely fallen off the radar of most investors. In many ways the environment is reminiscent of early 2003 when we started accumulating Indian mid-caps – many of these companies, lacking any brokerage coverage, shunned by the investment community, became market darlings in the subsequent bull-market. Whilst conceptually similar, in every sense we realise Tokyo is a long way from Mumbai. Whilst we are fully aware of the liquidity risks associated with too much exposure to smaller companies, we won't ignore valuation in our assessment of risk-return. In the interests of disclosure, approximately half the portfolio is invested in companies less than US$5 billion in market capitalisation which is, incidentally, very similar to the composition of a year ago.

The Federal Reserve balance sheet has now started to shrink on a year-on-year basis ie. US monetary policy is, on the margin, tightening – the free liquidity that has fuelled the global stock market rally is slowly being withdrawn. Clearly, with the official rate close to zero, we are not suggesting US policy is tight, however, with the economy showing some improvement and the return of interest carry at the long end of the yield curve, the dollar is now rebounding. Accordingly, whilst the Japanese have a habit of stealing defeat from the jaws of victory, even a half hearted effort by the BOJ to weaken the Yen may actually work as two large economic blocks (ie. Asia ex Japan and US) are now pursuing some form of tightening. Given its beaten down valuation, any broad devaluation of the Yen would act as a much needed accelerant for the Japanese stock market.

# PLATINUM INTERNATIONAL BRANDS FUND



**Simon Trevett**
Portfolio Manager

## PERFORMANCE

The Brands Fund has continued to show positive returns in a rising market with the unit price up 10% in the quarter, ahead of the benchmark MSCI increase of 3%. Over twelve months, the Brands Fund has returned 32%, well ahead of the 4% returns shown by the benchmark index. A relative outperformance of 27%.

The tendency of investors to inevitably focus on the shorter term performance of the Fund is understandably heightened during difficult periods in the markets. The losses posted by the Fund over 2008 and into the start of 2009 clearly exacerbated investors' underlying concerns and sensitivity to the deteriorating headlines of economic woe.

As defensive measures, the Brands Fund can undertake the selling short of stocks, currency hedging and adjust to the level of cash held. Despite these measures, it remains an equity fund that will always be greater than 50% net invested and thus exposed to the major moves in the markets.

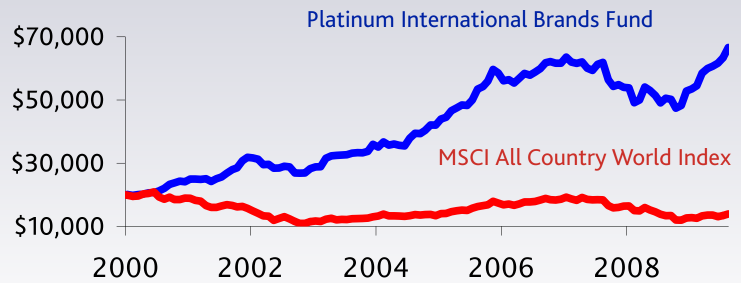
The longer term performance is dependent then on the selection of stocks that meet the Fund's branding criteria as well as investment requirements.

**DISPOSITION OF ASSETS**

| REGION | DEC 2009 | SEP 2009 |
|---|---|---|
| EUROPE | 39% | 41% |
| ASIA AND OTHER | 30% | 25% |
| JAPAN | 8% | 9% |
| SOUTH AMERICA | 6% | 6% |
| NORTH AMERICA | 5% | 5% |
| CASH | 12% | 14% |
| SHORTS | 9% | 8% |

Source: Platinum

**VALUE OF $20,000 INVESTED SINCE INCEPTION**
18 MAY 2000 TO 31 DECEMBER 2009




Source: Platinum and MSCI. Refer to Note 2, page 36.

Brands, for the purposes of the Fund, are those where the consumer makes the purchase decision based, at least in part, on the branded attributes of the product or service. Some well-known brands fall outside of this view despite the awareness of the consumer and perhaps involvement in the decision. Pharmaceuticals, for example, are excluded as the final decision falls to an intermediary, the physician.

The performance of companies is influenced by many factors, some within the control of management and many more external or uncontrollable for which responses must be found. The long-term success, or otherwise, of many consumer companies is predominantly determined by the myriad of decisions of the management team and the resulting strengths or capability of the brand and products to compete in a less than ideal world.

Those management and their boards who better appreciate the essence of their company and brands also tend to appreciate the durability of superior returns from well-managed brands. Although their businesses require an intensity of day-to-day activity they also require an enduring focus on the longer term.

It is this underlying and potentially enduring strength of corporate performance that the Brands Fund seeks to capture in the core of the portfolio. So with due regard to the short-term performance, investors' attention is drawn to the longer term performance of the Fund.

Over five and seven years the Fund has returned 11% compound pa and 13% compound pa compared to the benchmark MSCI returns of 0% and 2% compound pa. Even over the relatively short period of three years and from when the markets were close to their peaks, the Brands Fund has returned 4% pa compared to a loss of 9% pa by the MSCI - a relative outperformance of 12% pa.

## COMMENTARY

A sense of inadequate communication skills and rising frustration quite often characterised our visits to European consumer companies in past years as we pointed East and management determinedly discussed their need to succeed in the all-important US market. Management were politely and firmly determined to ensure that we fully appreciated the US market would always remain *the* most important consumer market and that the emerging markets of China and India would take many lifetimes to develop to a point of financial relevance to their results.

It is now difficult to find a management presentation that *doesn't* discuss the aspiration opportunities and rapid growth available to them from the emerging markets.

Recent events have provided opportunities in the US market, some sizeable, as many foreign companies start from a small or underdeveloped base and are thus impacted less by the falls in spending. The Fund's investments in Adidas, Henkel, Pernod and BMW should benefit from continuing improvements in their US operations, along with growth in their emerging market businesses. In stark contrast, many US domiciled and significant branded goods companies are wrestling with ongoing declines in their sizeable home market numbers whilst having made insufficient progress in the emerging markets.

Whether the US or the emerging markets offer the best opportunity will, in many cases, depend on the starting point of the company. It is our interest in neglected or difficult areas that has yielded the better investment opportunities for the Fund. So whilst much of the focus of both the corporate and investment community is now on the East, particularly China, we are intrigued to be revisiting opportunities in other parts of the world, including the US.

Readers may recall that the Fund has investments in dairy companies in China and Vietnam with both of these companies enjoying robust earnings growth as dairy products are more widely adopted. Government support such as the adoption of milk programs in schools or subsidies for the purchase of refrigerators contribute to wider consumption and facilitate the introduction of more value added products (yoghurt, flavoured milk, ice cream).

Readers might guess that the most productive dairy herds would be found in the US or perhaps New Zealand or even Argentina. The US would be a good guess whilst Saudi Arabia may not readily spring to mind.

The world's largest integrated dairy company is Almarai of Saudi Arabia whose dairy herd yields 12,500 litres of milk per head, well ahead of the US at 9,800. A herd size of more than 100,000, of which just over half are productive and the balance young ones, produces around 700 million litres of milk per annum at a cost that cannot be matched by competitors.

Almarai's extensive cold distribution network, with 30,000 fridges throughout retail outlets, further provides a formidable competitive advantage across the region. Cold distribution capabilities have facilitated the expansion of the fresh product range both in dairy, with yoghurt products such as fresh laban, and also juice. The company also has bakery and poultry operations and an interesting JV arrangement with Pepsi for expansion into countries outside of the GCC (Gulf Cooperation Council), such as Egypt.

Revenue growth of 28% pa over the past five years is impressive when viewed alongside the ongoing opportunities for both geographic expansion and new product introduction under the well-recognised Almarai brand. At a low teens PE valuation this company was added to Fund.

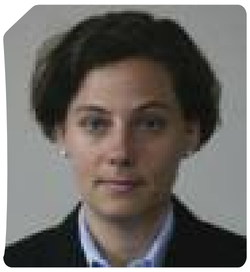
## OUTLOOK

The outlook for good earnings growth remains positive and despite recent share price movement the valuations of many of the Fund's investments remain attractive.

The Fund's focus will continue to be on identifying neglected companies with the potential for sustained growth, mostly but not exclusively, from consumers in emerging markets. There has been some realisation in the markets that investment exposure to emerging market consumers can be obtained at significantly lower valuations in companies listed in Western Europe or the US. This trend is likely to continue to the benefit of the Brands Fund and as noted in the above commentary, we were perhaps a little early with some investments and are yet to see the opportunity fully expressed in the valuations.

Source: Morgan Stanley Research

# PLATINUM INTERNATIONAL HEALTH CARE FUND



**Bianca Elzinger**
Portfolio Manager

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

The Platinum International Health Care Fund increased by 0.6% for the quarter versus the MSCI Health Care Index which was up 5.6%. For the year, the Fund rose 7.6% while the index was negative 7.4%.

Several of our biotech holdings continued their recovery. Similarly, our pharma holdings did well and the companies are finally re-inventing themselves. **Merck** now fully owns Schering Plough and already during the quarter, the share price has started to account for the potential of the combined companies (up 15%).

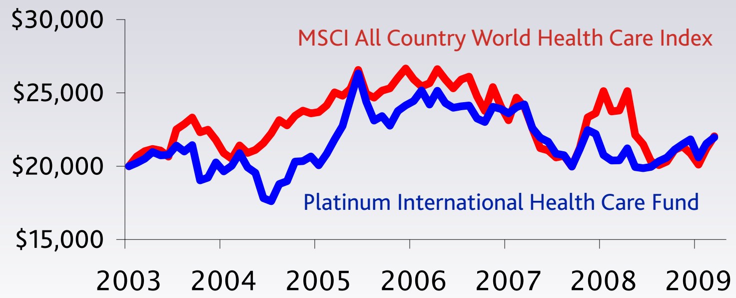
The new CEO of **Sanofi-Aventis is** a man true to his word. He indeed is deploying capital fast. This year alone, the company has spent more than €4.2 billion in acquisitions for approximately €1.1 billion in sales. The purchases expand the Company's manufacturing and sales infrastructure in India, Brazil, Mexico and Eastern Europe. Analysts are struggling with the complexity of "new pharma" as it is no longer possible to get away with simply modelling US prescription drug data. It is now about the Company as a whole and the decisions and capacity of management. We have said this many times: the pharma

**DISPOSITION OF ASSETS**

| REGION | DEC 2009 | SEP 2009 |
|---|---|---|
| NORTH AMERICA | 49% | 47% |
| EUROPE | 33% | 32% |
| JAPAN | 1% | 0% |
| CASH | 17% | 21% |
| SHORTS | 0% | 0% |

Source: Platinum

**VALUE OF $20,000 INVESTED SINCE INCEPTION**
10 NOVEMBER 2003 TO 31 DECEMBER 2009




Source: Platinum and MSCI. Refer to Note 2, page 36.

industry is about cashflow - deploying it, managing alliances, finding that great small biotech, diversifying into areas such as vaccines and on top, gradually building a presence outside the US. This is all work-in-progress, but we believe that once the patent cliff in 2012 has passed (for some companies this is similar to a rebalancing event), this myriad of activities accomplished today will bear fruit, and the earnings potential of the new product portfolios is underestimated. As such, during the quarter we added to **Johnson & Johnson**, **Merck**, **Sanofi-Aventis and Novartis**. At the same time we added to highly cash generative biotechs with commercially oriented sound management and interesting pipelines that are being ignored.

We are also revisiting the clinical trial service companies as these companies are on low historical valuations and drug development is about to re-accelerate.

By way of example, let's look at a multi-year investment which has displayed massive volatility, particularly in the last three years, **Incyte Pharmaceuticals**. Shares have recovered well over the year (up 150%) and today Incyte is in the best position ever to transition from an R&D company to a commercial one. We have written about the company and the potential of its JAK inhibitor in previous reports.

When we first visited the company (almost five years ago) in Wilmington near Philadelphia, we were met by an impressive management team comprised of seasoned pharma veterans. It was clear that management was fully aware that success in drug development requires much more than great science. It is about the quality of the drug, the quality of clinical development and knowing what patients require. A lot of small biotechs tend to be in a big hurry; they focus all their resources on one drug and often cut corners during clinical development. Subsequently they wonder why big pharma is hesitant to complete a deal. At Incyte it was obvious that it is quality not quantity that counts. Management had no illusions that there would be setbacks along the way, so having a pipeline was absolutely essential.

Five years ago the lead drug for Incyte was an HIV drug. It was an old "pet project" of the CEO and was originally developed by his previous employer. Unfortunately the drug succumbed to side effects. For many biotechs such an outcome means near bankruptcy. Incyte quickly shifted focus to their pipeline and avoided the dark consequences.

The HIV drug was never our sole investment criterion; we recognised that the core strength of the company lay with the team, and in particular, the understanding and expertise of biological processes and medicinal chemistry. We felt these are capabilities that pharma would come to value, even if the market did not.

In the past four years, Incyte has worked very hard and put together a remarkable pipeline. This month pharma finally recognised it. Novartis gained European rights for a cancer drug, while Eli Lilly licensed global rights for an anti-inflammatory drug. The total deal value, including up-front and milestone payments is well over $1.5 billion (on top will be 10% to 30% royalties on sales). Incyte is currently valued at $1 billion and has a solid cash position (around $600 million) to enable it to build its own distribution in the US.

Incyte has been a core small biotech holding for us. At times we do trim our position but to us it is a company that has a real chance of having a product approved in the next two years.

## OUTLOOK

The political chatter in the US has clouded clear decision making in the past 12 months but finally there is an end in sight. This year, investors will be more comfortable with the sector. Pharma will continue its reinvention and we see a re-rating of specific companies within this sector once investors start looking beyond the 2012 patent cliff. Small biotechs will continue to benefit from pharma and big biotech R&D outsourcing.

Another outsourcing beneficiary will be the clinical research service sector. Bookings have been in decline this year but it is clear that this is temporary. We are currently reassessing this sector as the companies are on low historical valuations.

Over the past few months we have become interested in Japanese-based pharma and generic companies. A few of the these pharma companies do generate significant cashflow, have completed some smart deals in recent years and pay a very respectable dividend. One could consider these companies similar to big biotechs in the US. However, the US biotechs do not pay a dividend and their investment story is very well understood; while Japanese based companies are not well analysed at all. Our openness to these Japanese companies is consistent with our investment criteria of good companies in neglected areas.

# PLATINUM INTERNATIONAL TECHNOLOGY FUND

**Alex Barbi**
Portfolio Manager

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

The Fund's value increased by 1.4% during the quarter, compared to an increase of 6.2% for the MSCI World Information Technology (A$) Index for the same period. Over twelve months the Fund has recorded a very strong positive 31% return and outperformed both the MSCI World Information Technology (A$) Index by 8.4% and the Nasdaq (A$) by 8.5%.

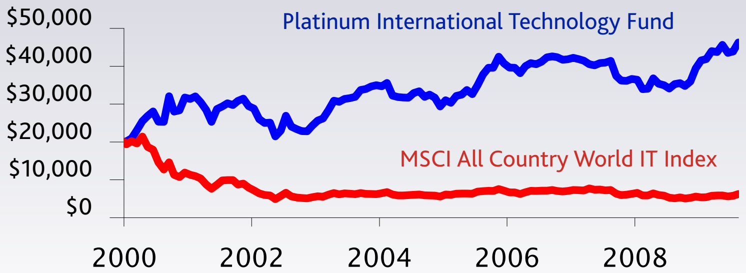
The last part of the year and the month of December in particular have seen a strong performance of US based technology stocks, as illustrated by the tech-heavy Nasdaq index rallying +5.3% in the last month alone. During the quarter, four Nasdaq stocks (Amazon, Apple, Microsoft and Google) contributed nearly 60% to its 8.3% increase.

**DISPOSITION OF ASSETS**

| REGION | DEC 2009 | SEP 2009 |
|---|---|---|
| NORTH AMERICA | 26% | 27% |
| ASIA | 22% | 24% |
| EUROPE | 21% | 19% |
| JAPAN | 11% | 14% |
| CASH | 20% | 16% |
| SHORTS | 1% | 2% |

Source: Platinum

**VALUE OF $20,000 INVESTED SINCE INCEPTION**
18 MAY 2000 TO 31 DECEMBER 2009




Source: Platinum and MSCI. Refer to Note 2, page 36.

The Fund's relative underperformance for the quarter can be mainly explained by:

- a relatively low exposure to US stocks (around 26% of the Fund);

- our reluctance to chase well-known stories like Apple, Amazon and Google when, in our opinion, high valuations already abundantly discount several years of strong earnings growth;

- our decision to increase the Fund's exposure to telecom and media, more defensive but underperforming sectors; and

- a disappointing performance from our Japanese holdings (11% of the Fund).

On the positive side, some of our best performers were in North America, Europe and Asia.

In the US, Microsoft was up 22% following the release of their new operating system software (Windows 7) and among expectations of a recovery in IT corporate spending. Corning increased by 32% with better than expected outlook for sales of LCD glass for TVs and PC monitors.

In Germany, SMA Solar Technology, the global leader in electric inverters for photovoltaic systems was up 42% following a recovery in solar panels demand in Europe. Smartrac, the leader in Radio Frequency Identification (RF ID) technology, was up 25% after signs of recovery in demand for electronic passports/ID cards, driven by tightened security regulations.

In Asia AAC Acoustic (miniature speakers/receivers/ microphones for smartphones) was once again a stand-out performer rallying 55% for the quarter.

At the end of the quarter we had reduced the Fund's exposure to the Australian dollar from 34% to 22% and increased its exposure to the US dollar from 6% to 23%, as we believe that the American currency's weakness has reached extreme levels (at least temporarily). While we are not bullish on the US dollar for the long-term, we think that a gradual recovery in the US economy and the US Federal Reserve's stated strategy to ultimately re-absorb the huge excess liquidity injected into the system will create the conditions for some temporary strength in the US dollar.

The Fund's largest individual positions are:

Microsoft (the global software giant), Amdocs (market leader in billing software and operating support systems for tier-1 telecom and pay-TV operators), Samsung Electronics (the global leader in electronic goods, memories and components), Cisco Systems (the global leader in data networking and advanced video technologies) and SES-Global (the provider of satellite broadcasting services to pay-TV operators).

At quarter end the Fund was 80% invested with a 1% short position on selected US stocks for a total 79% net exposure.

Since inception the Platinum International Technology Fund has returned 9.1% compound pa versus -11.4% compound pa in the MSCI World Information Technology Index (A$).

## COMMENTARY AND OUTLOOK

**What a difference a year can make!**

Exactly a year ago in our quarterly report (refer to our commentary section "semiconductor blues"- December 2008) we were writing about the abysmal state of the global semiconductor industry due to declining consumer spending for items such as electronic goods and autos. We highlighted in particular the depressed levels reached by Dynamic Random Access Memories (DRAM) prices, questioning the viability of many players in the industry.

Indeed 2009 was a tough year for semiconductor vendors. Only three of the top ten companies saw revenue growth last year: Samsung and Hynix (thanks to the recovery in DRAM prices) and Qualcomm (thanks to market share gains with mobile phones assemblers). Independent researcher Gartner estimates that worldwide industry sales in 2009 declined 11.4% to $226 billion, the first time the semiconductor industry has recorded a decline for two years in a row (sales were down 4.4% in 2008 at the onset of the global recession).

Fast forward twelve months and things are looking much better!

Prices for the most widely used DRAM chip (1Gigabit DDR2 128 M) have gone from last year's bottom of US$0.59 to US$2.50 at December end. Similarly, the DRAM DXI Index, a broader indicator representing a basket of the most popular digital memories in the market, has nearly doubled from last year's low (refer to chart below).

As we predicted a year ago, the severity of the downturn had forced many marginal players to reduce manufacturing capacity and curtail their expansion plans. When demand for consumer electronics eventually re-started in the second part of 2009, the conditions were ripe for a demand/supply inbalance favouring a sharp price recovery. In this context the Fund benefited from its exposure to Samsung Electronics and Micron Electronics, two major players in the field.

For 2010 Gartner currently expects that DRAM revenues will grow by 25%, driven by end demand. The risk (as always in this industry) is that some marginal producers, encouraged by the improved pricing conditions, may come back to spoil the party.

We are also encouraged by recent comments made by the Semiconductor Industry Association (SIA) President George Scalise. For global semiconductor sales he said that, "the new forecast is brighter than our earlier projections, reflecting an improving global economy... Unit sales of key demand drivers - including PCs and cell phones, which together account for about 60% of semiconductor demand - have been stronger than previously predicted. We remain cautiously optimistic for the longer term." SIA forecast projects that sales will grow by 10.2% to US$242.1 billion in 2010 and by 8.4% to US$262.3 billion in 2011.

However, nowhere has the crisis been so dramatic as in the area of semiconductor capital equipment. Worldwide semiconductor equipment sales collapsed by 43% in 2009, and that after suffering a 33% decline in 2008 (see chart page 32)! The industry struggled as many of its customers had to battle with excessive manufacturing capacity and challenging financial conditions.

There is a limit, however, to how much one can squeeze out of existing plants, particularly if demand picks up and technological changes require periodic upgrades of the installed machinery. With recovery in

**DRAM DXI INDEX**


Source: DRAMeXchange/Bloomberg

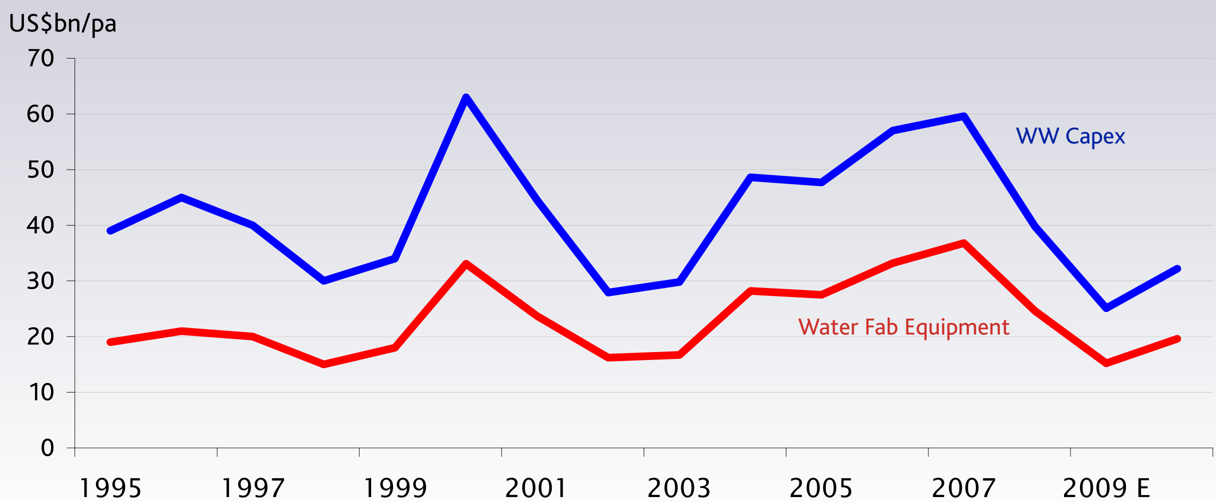
memory prices and renewed foundry spending in the second part of 2009, and provided end demand from consumers and corporates keep improving, this industry should go through a gradual turnaround, driven by technology upgrades and capacity additions. Most chip makers have plans to raise their capital spending in 2010. Samsung Electronics is expected to increase capex by 30%, Hynix will likely double its spending and Elpida is forecasting a 20% increase compared to 2009.

Gartner expects a strong 45% rebound of semiconductor capital equipment sales for next year followed by another 30% increase in 2011. While these are only forecasts, by definition highly uncertain, we consider this industry probably the most attractive within technology at the moment.

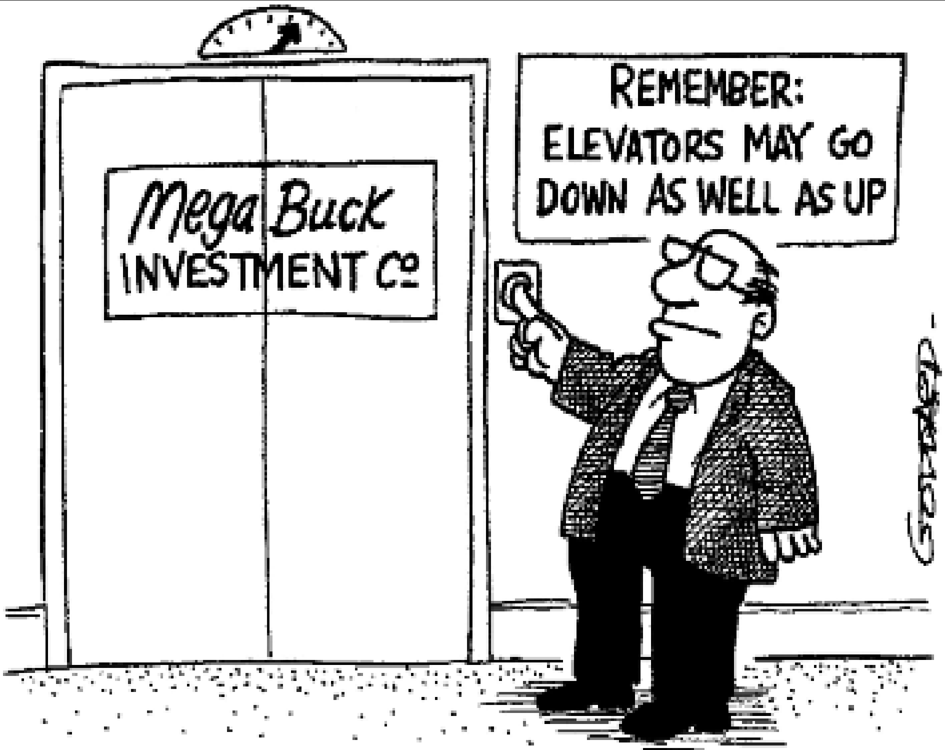
Valuation of technology stocks are no longer the bargain they were a year ago, but they are probably reflecting fair value. In the US, according to Bloomberg, Nasdaq trades at trailing 12 months 26.7x PE versus an average of 27.6x for the last five years. The consensus for 2010 indicates 20.7x which reflects analyst expectations of sharp earnings recovery. The market has definitely anticipated recent improvements in corporate profitability and order trends and it is positioned for further progression in 2010.

Among the uncertainties on the length and shape of the economic recovery, our efforts will stay focused on the selection of individual stocks. Our investment strategy remains that of trying to identify a number of emerging themes which will define the technology landscape over the next few years (ie. mobility, internet video, smartphones, alternative energy technologies and so on) and the companies which will most benefit from them.

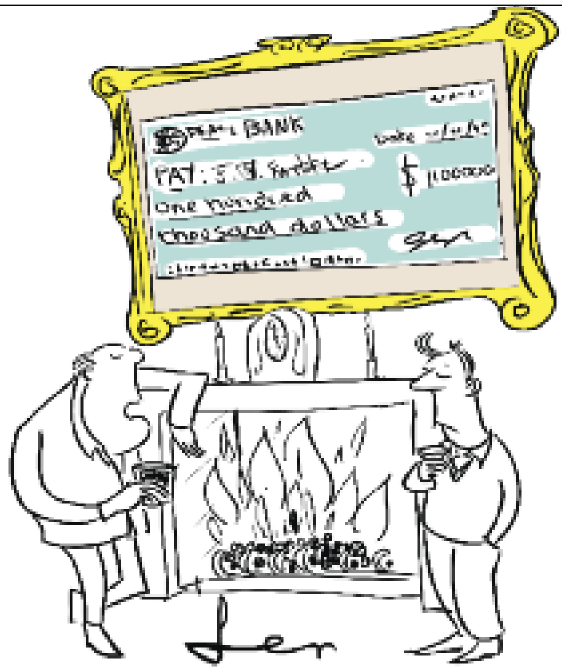
SEMICONDUCTOR CAPITAL EXPENDITURES (CAPEX) AND WATER FAB EQUIPMENT (WFE) SPENDING




Source: Deutsche Bank




"Careful burying all your bones. We get
a cold snap and your assets are frozen!"




"I know art can be a good investment,
but it's important to love what you collect."

# 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$20,000 invested in the relevant Fund since inception relative to their Index (in A$) 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. 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.

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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 $17 billion, with approximately 9% of this coming from overseas investors. The Company was listed on the ASX in May 2007 and staff remain the majority shareholders.

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


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* Please refer to page 2.

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