Platinum Global Fund Quarterly Investment Manager's Report
30 September 2014

Performance

It has been an interesting period in world markets this last nine months. Starting out strongly in January, the first hiccup occurred in late February/March in response to China growth scares. Investors started rotating out of the then market leaders, very highly-priced biotech and Internet commerce plays, into older tech stocks and some of the emerging markets. This retreat by strong market leaders tends to be a warning of changing market dynamics. At the same time, the high risk, high yielding bonds also started to weaken. There followed a recovery through to mid-year when again talk of higher rates and concerns about the Federal Reserve getting too complacent (falling behind the yield curve with appropriate rate intervention) led to another loss of momentum in the western markets. This was countered by an awakening of the Asian markets, particularly China, India and Japan. India rose on account of the perceived favourable election outcome; China because of diminishing concerns about its growth prospects and the opening of the local market to foreign investment. Japan rose on account of the weaker Yen and for having squeezed past the rise in the consumption tax.

By the end of the third quarter, momentum was again fading as the markets were besieged by the uncertainties in the Middle East and Ukrainian border region, the threat of deflation and soggy growth in the Eurozone, and further rotation out of the high yield bond markets on the prospect of rising rates in the US. One could also observe the beginning of doubts forming about the consequences of an ultra-strong US dollar.

This concern also washed across the sector indices with those sectors with perceived dependable earnings growth being favoured over the more cyclical areas.

For Australian investors who are long the underlying currencies, the weakening of some stock markets was masked by the depreciation of the Australian dollar by around 6.5%. Overall the US was up 9% (in Australian dollars), Europe was flat and Asia variously up by 6 to 8%.

The Fund was incepted on 8 September 2014 and returned 0.9% to 30 September 2014.

The Portfolio

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS*

Region	Sep 14
North America	19%
Asia	16%
Europe	15%
Japan	15%
Australia	2%
Cash	33%

Source: Platinum. Refer to Note 2, page 3.

Commentary

It is likely that the threat of rising rates in the US creates a **negative feed-back loop via a stronger US dollar.** In the last quarter the marker of the US dollar, the DXY index, rose by 8% which was matched by a similar setback in the Russell 2000 Index. From here individual stock picking is likely to become even more important with the underlying trend no longer being so helpful. Rates, at the short end, seem likely to be raised ever so gradually in the US on account of insipid growth and the fact that the **Central Banks of Europe, Japan, China and India are, if anything, still going the other way!**

Asia is driven by **valuations** and the fact that there is **reform** taking place that should, in time, release further growth potential. It is noticeable that the **Chinese authorities** were trying to deflate the property market gradually with modifications to purchase restrictions and the like. Transaction volumes in the primary market have fallen by some 20% (though prices in the big four cities have barely weakened) while in the second and third tier cities, solid discounts are on offer. Thus far the fallout from the property market has been mild and reported non-performing loans are still very low, albeit on a rising trend. It is in areas such as construction machinery that one is seeing evident stress with members of our investment team reporting meeting some very sad dealers during their September field trip.

The exciting development is the opening up a reciprocal market between Hong Kong and Shanghai (the so-called ‘through train’). This will initially involve the allocation of a quota which will allow foreign investors to purchase shares on the Shanghai Exchange and likewise for Chinese mainlanders to acquire shares listed in Hong Kong. Essentially this is the **beginning of an opening of the capital account of China** and will give investors the greater choice of the A share market on the mainland. Where there are dual listings, typically mainland shares trade at a significant discount to those in Hong Kong.

One has read some concerns about the follow-through of reforms subsequent to India's Prime Minister Modi's assumption of power. We are getting much more positive feedback about a business-like cultural shift that has been imposed on the ministries in Delhi. For example, objections among ministries are required to be voiced within 15 working days or may face forfeiture; a Central Government expenditure management committee was established in August charged with reducing waste at the centre; the Agricultural support system is under review; prices and tariffs are being reviewed and petty impositions on the citizenry such as notarisation of identity is being eliminated to reduce rent-seeking at the street level.

Most encouraging to long-standing observers of India is Modi's declaration in Washington at the end of September that the **State 'has no business of being in business'.** This is profound rejection of the opposition Congress party's long standing approach of intervention and subsidy.

There are, however, many sticking points. Most important of all is the **magnitude of the work load on a very narrow group of decision makers surrounding Modi.** There is also heavy wrangling ahead to try to implement a general sales tax and to gradually wind-back subsidies on food and energy. There is then the necessity of dealing with the re-auctioning of the coal blocks and the allocation of gas to tens of gigawatts of stranded electrical generation capacity.

The **gradual shift in corporate culture in Japan** is also taking place in Korea. On balance the business environment in Asia is at least as positive as we can observe in the Western hemisphere and we find the valuations more compelling.

Outlook

That there will be some volatility in markets seems likely but the hunt for duration in a world facing low inflation and growth against a back drop of very cheap money, suggests that real assets (shares) will continue to attract investors. The portfolio management challenge will be to achieve the correct balance between predictable earnings growth and the low valuation being placed on companies with less certain outlooks.

Kerr Neilson
Managing Director

Notes

1. The investment return is calculated using the Fund's unit price and represents 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 return shown is historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Fund and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).
2. Invested position represents the exposure of physical holdings and long stock derivatives.