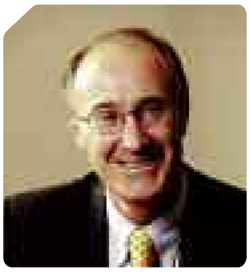
PLATINUM INTERNATIONAL FUND



Kerr Neilson
Managing Director

PERFORMANCE

The mood of investors brightened as the realisation set in that the downward spiral of activity, attributable to a massive but short-lived de-stocking event, would be arrested by concerted government deficit spending. The measures adopted are unprecedented with government transfers augmenting incomes and asset purchases greatly assisting the resuscitation of bank and company balance sheets. The spreads on corporate paper shrank and money moved away from government bonds towards higher risk assets.

World stock markets came tearing out of the blocks this second quarter led by the emerging markets. Countries such as India, Indonesia and China were particularly strong, being identified as having less vulnerability to external factors than the developed economies. In the earlier sell-off these same markets had borne the brunt of selling as fund managers, and hedge funds in particular, sought to raise cash in ever dwindling pools of liquidity. The developed markets were also lively with those industries most adversely affected in the preceding quarter such as financials, home builders and other economically sensitive companies recovering the most. The trading floor describes this as 'putting the risk trade back on!' but interestingly, after the initial surge in April, there was a flattening out as the quarter progressed.

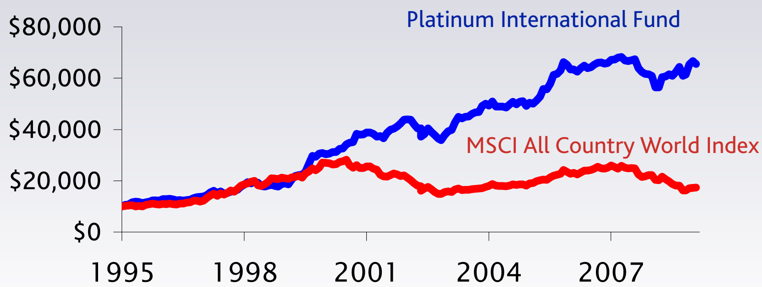
The Fund has performed very strongly because of our successful stock picking and heavy exposure to Asia. In fact, in each geographic area we outperformed the index by a handsome margin despite surrendering some of that gain to the losses made on the shorts and

MSCI WORLD INDEX SECTOR PERFORMANCE (A$)

SECTOR	QUARTER	1 YEAR
FINANCIALS	20%	-21%
MATERIALS	10%	-33%
INDUSTRIALS	7%	-22%
CONSUMER DISCRETIONARY	6%	-6%
INFORMATION TECHNOLOGY	4%	-7%
ENERGY	2%	-29%
UTILITIES	-1%	-16%
CONSUMER STAPLES	-1%	2%
TELECOMMUNICATIONS	-3%	-9%
HEALTH CARE	-6%	2%

Source: MSCI

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 MAY 1995 TO 30 JUNE 2009



Source: Platinum and MSCI. Refer to Note 2, page 4.

by having a large cash balance necessary to service the annual distribution. Overall, the Fund outperformed the MSCI by 3.6% for the quarter, 12.7% for the six months and some 34% for the year.

In absolute terms the Fund rose by 8.7% for the quarter, 6.8% for the six months and 18.2% for the year.

CURRENCIES

The A$ has been a star performer since the beginning of 2009. The ideal position would have been to be fully hedged back into the A$ out of the Yen, US$ and Euro. In the six months to 30 June 2009, the A$ has appreciated respectively by 26%, 23% and 13% against these currencies.

We at Platinum have been far too conservative, believing that Australia's overseas indebtedness would weigh heavily on the exchange rate even though our government's indebtedness is negligible and our banks are relatively sound. As it happened we held only about 30% in the A$.

By the end of the quarter, we had reduced this to 25% of the portfolio, the concern being that as the pro-growth trade loses momentum, the A$ will lose some support. The disposition of currencies is shown in the table below.

CURRENCY POSITION

REGION	JUN 2009
EUROPE (EURO, NORWEGIAN KRONER)	**29%**
AUSTRALIA	**25%**
ASIA (HK$, TAIWANESE $, KOREAN WON ETC)	**22%**
NORTH AMERICA	**15%**
JAPAN	**9%**

Source: Platinum

SHORTING

We entered the quarter with the lowest short position for years.

Fortunately the defensive names that constituted the bulk of our shorts barely moved up as investors used them as funding to purchase more economically sensitive entities. As this occurred, we began to shift the positions out of defensives into more cyclical stocks, the latter having been significantly revalued in relation to defensives. We further believed that the current climax would be accompanied by the defensives gaining more support.

At quarter end, our shorts represent 18% of the portfolio and are mainly in economically sensitive companies.

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS

REGION	JUN 2009	MAR 2009
EUROPE	**22%**	**21%**
NORTH AMERICA	**21%**	**22%**
ASIA AND OTHER	**20%**	**20%**
JAPAN	**17%**	**19%**
CASH	**20%**	**18%**
SHORTS	**18%**	**19%**

Source: Platinum

There is not much outward change in the portfolio as the transactions have been largely in smaller holdings. Several purchases that were made into the teeth of the sell-off subsequently climbed precipitously and were discarded. These included China Mengniu Dairy, which we described in March regarding melamime contamination, and which then doubled, Wumart (China retail), Mosaic (fertiliser), Metso (plant engineering), Corning (substrate glass and poly silicon) and Rohm (analog chips). The money was redirected into our larger holdings. The top 20 holdings now account for nearly 40% of our longs.

A large company, with very interesting prospects that was added, is China Resources Enterprise. This is a

Hong Kong listed subsidiary of a state owned enterprise (SOE) with diverse interests in supermarkets and hypermarkets, beverages (beer and bottled water), rented commercial property and infrastructure. The businesses that caught our attention were retailing and beer. Both have been increasing sales in the high teens and profits are starting to follow. Both areas are highly competitive and though we have reservations about the business acumen of many SOEs, the group has teamed up with a highly experienced partner in beer, namely SAB Miller. In retailing they are following a model of trying to dominate specific regions and with the help of experts lured from experienced international competitors, seem to be building a successful business. The company is not a complete gift being priced on say 17 times this year's earnings and 1.5 times book, yet the profit potential of its consumer businesses is alluring.

PLATINUM INTERNATIONAL FUND - TOP 20 STOCKS

STOCK	INDUSTRY	JUN 2009
MICROSOFT CORP	TECHNOLOGY	3.6%
MITSUBISHI UFJ FINANCIAL	FINANCIAL	3.3%
CISCO SYSTEMS	TECHNOLOGY	2.7%
SIEMENS	ELECTRICAL	2.5%
DENSO CORP	AUTO	2.2%
HUTCHISON WHAMPOA	TELCO/TRANSPORT	2.1%
BANGKOK BANK	FINANCIAL	2.1%
HENKEL KGAA	CONSUMER	2.0%
HENDERSON LAND DEV	PROPERTY	1.9%
SAMSUNG ELECTRONICS	ELECTRICAL	1.9%
SANOFI-AVENTIS	HEALTH CARE	1.7%
ANGLOGOLD ASHANTI	GOLD	1.7%
MICRON TECHNOLOGY	TECHNOLOGY	1.7%
INTERNATIONAL PAPER	PULP/PAPER	1.5%
BMW	AUTO	1.5%
VEOILA ENVIRONNEMENT	UTILITY	1.4%
MERCK & CO	HEALTH CARE	1.4%
JOHNSON & JOHNSON	HEALTH CARE	1.4%
AES	UTILITY	1.3%
OBAYASHI CORP	CONSTRUCTION	1.3%

Source: Platinum

COMMENTARY

Being conscious of the fact that most readers have probably had their fill of media coverage of the "world economic crises", we will try to follow a different course. Before we do though, let's remind ourselves of important observations made in our earlier communications:

- We are in uncharted water and cannot know how the individual will respond to the uncertainties.
- The fiscal and monetary response by a host of nations is unprecedented in scale and scope and is partially experimental.
- The de-stocking cycle that probably bottomed-out in the first quarter of 2009 led to unbounded fear, even panic, and this was expressed in a collapse in the valuation attributed to risk assets; shares, commercial paper and property.
- While reassuring, the recent rally in risk assets does not necessarily mean the system is healed and that the pattern of the last thirty years is about to resume. As we noted last quarter, the banks are mostly bereft of equity, profits had reached extreme levels world-wide and trade imbalances need to be redressed.
- Those countries with strong fiscal balances and high savings are likely to recover the quickest.

As we write, the conventional view is that the emerging countries of the world are best placed to drag the "world train" out of the shunting yard.

Among the people we met in Beijing on a recent trip to China was a well-regarded Chinese economist who had served the IMF in various postings around the world. He felt the stimulus package of Rmb 4 trillion (some 25% of GDP), together with the massive growth in bank lending, being up 30% year-on-year in the first six months of 2009, would allow China to decouple from the industrialised countries. Also, that the changing destination of Chinese exports to Asia, Africa and Latin America would compensate for the weak demand elsewhere.

When talking about prospects for growth, among the other BRIC (Brazil, Russia, India and China) economies he assured us that India's prospects were sub-par on account of its inadequate infrastructure. This notion has great appeal for those who go to India frequently, as we do, but **it is all about "perspective".** While true in a bland sense, it is a fact that India has a strong judicial system (cumbersome and creaky though it may be) and a representative system of government. This is still a dream for China. Whether a modern capitalist economy needs representative government is for readers to judge but what is surely not in dispute is the need for a sound judicial system.

This **difference in perspective** recurred on several occasions during our ten day visit. The most striking was the meeting with investor relations from China South Locomotive and Rolling Stock Corp (CSR). This recently listed SOE, together with its still unlisted northern twin, the CNR, are the principal beneficiaries of the massive infrastructure programme just launched by the Central Government. Sadly for us, the meeting started on the wrong foot when we asked why we should share the general enthusiasm for the company's profit prospects. Closer inspection of the presenter's business card would have revealed that apart from being a board member he was also head of the CPC department of propaganda. Our lack of **perspective** worsened when we persisted in delving into the terms and conditions under which foreign giants like Siemens are required to transfer their technology in order to gain access to that market. Not that we are unsympathetic to a reversal of roles harking back to the days of the *treaty ports*[1], but the divergence of views on protectionism and selection on grounds other than commercial merit was a source of great anguish. We each came away confused about the other's "real agenda". Our take was that there will be a lot of trains built but the sort of profits the brokers are projecting is probably unrealistic.

With the banks having been instructed to lend copiously, credit is exploding in China in marked contrast to the developed world where credit growth is slowing, notwithstanding government urging, and delinquencies have reached record levels. Interestingly, anecdotal evidence from those Chinese who do not face the daily abuse of markets, fear that this will lead to inflation. Property speculation is snowballing into a frenzy. As in Hong Kong, land development in China requires the payment of a development premium governed by size of the approved floor space (square meters built). The price levels of recent land sales in Beijing are astounding observers. In the most recent auction, a site close to the fourth ring road[2] went for Rmb 15,000 per m^2. Considering that building costs of medium grade residential property are approximately Rmb 4,000 per m^2, the bidder, an SOE, is evidently banking on substantial price appreciation in order to break even. The same pattern is occurring in the other major cities and there is a massive revival of interest in the HK property scene[3].

The most encouraging aspect of this development activity is the insistence by the authorities that development is accompanied by ample green space. Calculated at 60% of each site area, it is resulting in Beijing being an unusually green metropolis. Few modern cities have achieved this balance but each time one visits Beijing, one is reminded of the success of the town planners to have at least embedded the amenities that are rare in great conurbations. Returning to **perspective**, it was salutary that our broker thought it was a waste of space!

1 Generally accompanied by military superiority/victories in the nineteenth century, the Western powers entered into unequal treaties in countries such as Japan, Korea and China to gain access to their markets.

2 The fourth ring road built in 2001 is about 8kms from Tiananmen Square. The farthest complete ring around the city is the sixth ring, about 18kms from the centre.

3 Top end residential property in both Shanghai and Beijing is certainly no longer cheap with prize locations, say within the second ring road in Beijing, selling for Rmb 50 to 60,000 per m^2; over A$10,000 per m^2. This contrasts with the average residential selling price recorded in the first five months of 2009 of Rmb 4,450 m^2 for China as a whole and around Rmb 11,300 per m^2 for the first tier cities of Beijing, Shanghai, and Shenzhen in the New Territories. The average for Hong Kong is HK$45,000 per m^2 and the top end is 3 to 5 times this figure.

OUTLOOK

Markets have rallied strongly in response to the realisation that the world is no longer looking over the edge of an abyss. Growth will remain a challenge for most Western countries; the emerging economies will probably do somewhat better though burdened by weaker exports. With this in mind we are puzzled by the strength of commodity markets and believe they are being driven by short-term anomalies which include strategic stockpiling, in a world where most currencies are suspect.

Coming off depression-like levels, profits will improve but utilisation levels are unlikely to be strong, meaning that the recovery to the super profits of earlier years is remote. The most encouraging aspect of all this uncertainty is that there are still plenty of opportunities to find companies that are priced below their potential. Such investments are not confined to those areas of the world that are likely to grow strongly, for, as usual, the **perspective of investors** is being unduly influenced by the story rather than the reality. There are companies that while registered as having their head offices in Europe or America, do in fact derive a great part of their activities in emerging economies. The principal difference is that they are not being priced as highly.

We have adopted a relatively cautious stance with part of the portfolio being able to benefit from the liquidity that is being funneled into the system by central bank largesse, yet at the same time we are delighted at the price at which we can acquire companies of unusual quality and that are relatively low risk.

The unfolding of this unique episode in world economic history is likely to be long and arduous. If it turns out better than we presently believe, we suspect those companies sensitive to world growth will carry those with more defensive qualities and high recurrent dividend yields. We will use shorts to exploit the anomalies that are being created by those investors who believe that it was all a bad dream and that the system is nearly fully repaired.

NOTES

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

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

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

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

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

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

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

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

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

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

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

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

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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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