PLATINUM INTERNATIONAL FUND

Kerr Neilson
Managing Director

PERFORMANCE

The pattern established in the June quarter persisted into the last three months. Investors favoured the riskier companies and sectors demonstrated by interest in lesser quality and generally highly levered companies over those with more predictable earnings and more robust business models. This may be partly explained by the remarkably swift change in sentiment and the surprisingly strong earnings that have been reported post the crises. One imagines that this pattern will change as the recovery flattens out from its very steep initial trajectory, and when greater value is attributed to higher quality and hitherto stodgy plays.

The table below highlights the world index performance by sectors and in our view underlines the vast improvement of investor sentiment. Looking at the Fund's performance, it is the tail of our holdings, which by their nature tend to be smaller companies, that have been the large contributors to our performance. Some of these companies suffered disproportionately in the crisis as their prices were marked down in the chase for liquidity.

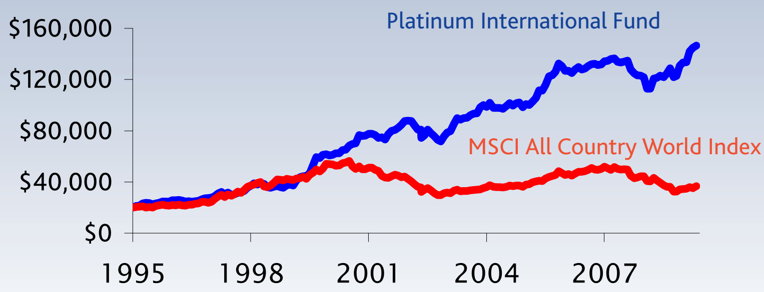
The disposition of assets has also played a part, with our high exposure to Asia and in particular, China and Korea, being very profitable. Although our Japanese stocks made a small loss, strong outperformance in North America and Europe more than compensated.

MSCI WORLD INDEX SECTOR PERFORMANCE (A$)

SECTOR	QUARTER	1 YEAR
FINANCIALS	15%	-17%
MATERIALS	11%	-3%
INDUSTRIALS	10%	-13%
CONSUMER DISCRETIONARY	8%	-7%
INFORMATION TECHNOLOGY	8%	-2%
CONSUMER STAPLES	4%	-10%
TELECOMMUNICATIONS	4%	-7%
ENERGY	3%	-15%
HEALTH CARE	3%	-12%
UTILITIES	2%	-14%

Source: MSCI

VALUE OF $20,000 INVESTED SINCE INCEPTION
1 MAY 1995 TO 30 SEPTEMBER 2009



Source: Platinum and MSCI. Refer to Note 2, page 5.

When disaggregating returns among longs, shorts and currency for the last three months, we find that longs rose by around 15%, but that shorts and the appreciation of the rampant Australian dollar cost the Fund just over 5%. The rise of the A$ contributed a good two thirds of this negative effect. The net outcome for the quarter was that the Fund rose by 9.7% versus the MSCI World index which rose by 8%. For the last twelve months the outperformance is much more stark with the Fund rising by 20.6% while the MSCI lost 10.7%. We believe that the five and 10 year figures are the most valuable timeframe in which to assess a manager's skill and these are respectively 8.4% and 12.6% compound pa versus the MSCI's return of 0.5% compound pa for the last five years and -1.5% compound pa for the last 10 years.

CURRENCIES

As noted above, the Australian dollar continues to punish our returns. We commented about this last quarter and arguably, have remained too cautious. With the RBA leading the field with a reversal of interest rate policy, it looks as though only a growth scare will dent the A$. We have, nevertheless, reduced our exposure to the A$ further and added a position in other currencies which are in a similar position to the A$, yet with less foreign debt. These are the Norwegian kroner and Indian rupee. Our exposure to the Japanese yen is about half our physical position in Japanese shares as we believe ultimately they will have to address their compromised fiscal status. Regarding the US dollar we are ambivalent in a sea of negative sentiment.

SHORTING

Our positions have changed little over the quarter with the emphasis on highly priced cyclical companies and a small generic short on the S&P 500 index.

CHANGES TO THE PORTFOLIO

A very strong market in smaller companies has been used to further reduce our positions in companies such as Airports of Thailand, Gamuda and effervescent property stocks in Hong Kong like Henderson Land. We have completed our exit from AES, a power producer that we bought into the teeth of the crises when debt and exposure to emerging markets was highly unfashionable.

Setbacks in China allowed us to top-up on China Life and China Resources Enterprises. Reed Elsevier also had a setback when it placed new stock to repay some debt and this gave us an excellent top-up opportunity. Among the other companies in which we have initiated positions are Sotheby (the auction house), Allianz (insurance), Electronic Arts (video game publisher), MGIC (a US mortgage insurer) and Nikon (cameras and IC production equipment).

DISPOSITION OF ASSETS

REGION	SEP 2009	JUN 2009
EUROPE	**26%**	**22%**
NORTH AMERICA	**22%**	**21%**
ASIA AND OTHER	**20%**	**20%**
JAPAN	**18%**	**17%**
CASH	**14%**	**20%**
SHORTS	**17%**	**18%**

Source: Platinum

COMMENTARY

We concluded the Platinum International Fund report in our March quarterly with "The nature of the world's current problem is highly complex and the outcome will depend heavily on how individuals respond to uncertainty. We are clear that there was a great deal of fear factored into prices as we entered March...". Indeed, this proved prescient and the massive intervention by governments bolstered confidence and led to a freeing up of the credit markets and a significant restocking cycle. Despite long experience, we were surprised at the way, in the absence of strong export markets, China has re-accelerated and this has been to the benefit of Asia through a knock-on effect. The subsequent boost to raw material demand has then rippled through to strong primary production countries ranging from Australia to Africa and South America.

Regarding the second part of the quote, fear has all but evaporated as investor confidence leapt in response to the lifting cloud of uncertainty. We now find many shares and even some country indices trading at levels higher than those that prevailed before the Lehman collapse. This is puzzling given that the G7 nations have incurred vast public mortgages in exchange for private debt obligations and losses. Further, bank balance sheets are now deeply impaired and their willingness to lend is much reduced. In aggregate, the loan to deposit ratio of these banks is about 120%, while the current and potential debt obligations for G7 governments are in excess of 160% of GDP.

The surge in confidence is particularly evident in the forecasts of analysts. Helping this process has been an astoundingly rapid reduction in the operating costs of businesses as management laid-off workers and removed capacity. There is a high correlation between robust earnings forecasts and robust government stimulation!

On the first anniversary of the "GFC", one was inundated for commentary from the press about the lessons learned. Astonishingly, the enquiries were accompanied by the suggestion that the crisis was a complete surprise and the remedial action indubitably praiseworthy. It is as though there has been a communal sigh of relief about a near miss and we can now go carefully back to our pursuits. The question of *fiat* money (see the case of Zimbabwe below) has also occupied the media as has the prospects of the world moving off the US dollar standard.

As we have often noted, the English speaking world has been on a debt binge not so different to that of the Japanese in the late 1980s. There are differences, but not so great as to cause one to believe that we can avoid a long work-out. Rather than heeding the endless chatter about the kind of recovery ahead, we suggest there are two indicators that should be watched: employment levels and bank lendingsee graphs on Consolidated Report, page 3).

Zimbabwe – a live model of fiat money in action

On the subject of fiat money, that which derives value from government promulgation, we have just returned from Zimbabwe, the newly crowned heavyweight champion of money creation. Their problems epitomise the issues of economic mismanagement and the subsequent use of the printing presses to cover the fiscal deficit[1]. The broad lessons are universal and mimic the experience of Germany in the 1920s[2] and Argentina in the late 1980s.

In the latter days of currency debasement, governments tend to intervene with price controls to try to offset the exploding supply of money. The populace becomes consumed in trying to arbitrage valuation discrepancies between physical assets, while property and shares are the vehicles of refuge. Capital flight is the purview of the wealthy elite and of industrialists at the cost of their operating plant that becomes rundown or obsolete. As the ever larger bundles of notes are exchanged for ever diminishing purchases, economic activity shrivels and a complete disorientation of value

1 Testament to this lies in the bound bundles of 100 unused Zim $10 billion notes that one is offered by hopeful street vendors for US$1-2. Admittedly the Zim $100 trillion notes are a little more difficult to come by and sell for about US$1 each!

2 For those eager to study this subject they might seek a copy of "The Economics of Inflation" by Costantino Bresciani-Turroni, first published in English in 1937 by George Allen & Unwin Ltd.

sets in[3]. Price controls destroy companies' working capital in the face of an inflationary crescendo but even so, in the case of Zimbabwe, one risked incarceration for removing stock from the shelves for fear of being charged with crimes against society[4].

Trusted foreign currencies gradually took over from the Zimbabwean dollar even though it was unlawful to use anything other than the national currency. This requirement was hardly modelled by the central bank which was acting unlawfully by simply expropriating firms' foreign exchange earnings in its desperation to meet external obligations. The end came when the populace refused to transact in Zimbabwean dollars. By late 2008 the government was forced to acknowledge that the US$ was the principal means of exchange[5]. It is this tacit dollarisation of the Zimbabwean economy, as well as stiff sanctions against the ruling *Junta*, that has forced the Zanu-PF to the negotiating table.

The economic aftermath is striking; the economy now operates as though it were on a gold standard. Money supply, which comprises bank deposits and currency in circulation; US dollars, Rands, Euros and British pounds, can only grow from trade surpluses, remittances from some three million Zimbabweans abroad, foreign direct investment and foreign aid.

Businesses have lost most of their working capital from the hyper-inflation. Zimbabwean dollar bank deposits have become worthless, which in turn has the peculiar effect of expunging debt from the system but leaves the banks without a lender of last resort[6], and an unwillingness to participate in an interbank market. Solvency concerns dictate that bank lending is now a tiny fraction of the estimated US$700 million of bank deposits. In these circumstances the economy's growth is governed by the growth of its stock of "hard currency". It is for this reason that an impotent President Mugabe so berates the West about sanctions. He simply cannot pay to keep himself in power via the printing press and hence his former impregnable position is now severely compromised. Top officials are earning US$300 per month and **all** other civil servants US$150 pm.

Businesses have been remarkably agile to adjust to the new circumstances but have an enormous backlog of capital expenditure required and very little working capital. This puts them at the mercy of imports, not from wages being too high, at 50c to $1 per hour, but because of initial scale. Employment growth will be slow and the grounding of the economy to an external peg sets up some interesting dynamics as the power-sharing negotiations proceed.

The Zimbabwean market capitalisation is tiny at about US$4 billion but it may offer some interesting opportunities. The main purpose of the foregoing description is to alert clients to a world where the central bank loses its fulcrum in an economy and to highlight the assumptions we tend to take for granted! It may also have lessons for an economy that has long depended on its currency being given reserve status!

OUTLOOK

We believe there are sufficient positive drivers to ensure that the world economy continues to expand, led principally by the industrialising nations. Some of the earning forecasts strike us as optimistic, which when combined with modest growth in the industrialised nations, suggests that valuations are no better than fair. Having said that, there appear to be many good high quality companies that are cheap when compared with their historic valuations and against the market as a whole. This is another way of saying average companies seem to be fully valued.

Our research continues to find attractive opportunities which are our best guide as to whether we will make you money in the coming months.

[3] During the hyperinflation in Germany in 1922, the market capitalisation of Daimler was the equivalent of the price of 327 of its automobiles; in Buenos Aires, I was told of a banker having the use of a taxi for a full day for the cost of US$1 and in Zimbabwe, a drug company with 200 employees met its entire salary bill for November 2008 with the payment of the equivalent of US$1!

[4] At one stage Delta Zimbabwe calculated that it was required to sell its beer for about a quarter of a cent per bottle.

[5] Argentina explicitly linked its currency to the US dollar and Germany in 1924 reset its currency against gold.

[6] Without foreign reserves the Zimbabwe central bank loses its relevance. It cannot lend to the government nor the banks and nor can it set interest rates as these are set by the issuer of its currency, the US Federal Reserve Board.

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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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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