We believe there will be a severe setback at some stage but we remind readers that the government has done a reasonably good job to date and it still owns a very large share of the nation's productive capacity. If properly accounted for, the fiscal balance would be shown to be in significant surplus instead of a declared deficit of 2.2% of GDP! The Achilles heel resides in the need to create enough jobs but in attempting to control the currency there will be unintended consequences.

The machinations in the foreign exchange markets are reminiscent of the patterns of the 1920s. Then, just as now, the world was experiencing the changing of the baton. Britain with its imperial pride was reluctant to diminish its historic role as the financier to the world and consequently had reset its currency against gold at the pre-war and uncompetitive level. France in the 1920s did the exact opposite while the third major European power, Germany, enfeebled by hyperinflation that was the consequence of monetising on the debt emanating from the Great War, was being eviscerated by reparations.

The emerging super power, America, tried its utmost to accommodate all by keeping interest rates low but in so doing set the stage for rampant speculation that led to the crash of 1929. There followed a spate of currency devaluations (coming-off the gold standard) with America devaluing by about 40% against gold in 1933, but by moving slower, the likes of Britain experienced a much more severe depression. Liaquat Ahamed's book *Lords of Finance*[4] highlights how the logical path was often eschewed because of the personalities and misconceptions by the principal players and because of their own narrow agendas. The evidence around us suggests that we remain resistant to the lessons of history.

CONCLUSION

The world has a pattern of lurching from one mishap to another. The intertwining of political demands, together with changes of national competitiveness, finds expression in tampering with money supply and the purchasing power of currencies. Never was this more evident than today. Those countries that resist an appreciation of their currencies will likely see a different immediate pattern to their internal asset prices than those that do not. We can anticipate some currencies, commodities and risk assets to deviate strongly from their inherent value.

This is not an easy environment for value orientated investors but if we can read the trends correctly, good returns may be earned without having to resort to becoming a momentum investor. Should the Chinese surprise markets by allowing a rapid appreciation of the Yuan, markets could rise appreciably on improved fundamentals.

4 For those with the interest and time, may I suggest you read *Lords of Finance* written by Liaquat Ahamed and published by Penguin Books. The book tries to capture the people and the moment of the events leading up to the great depression of the 1930s.

If you have any questions about your investment in the MLC-Platinum Global Fund, please contact the MasterKey Service Centre on

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0061 2 9466 7180 from overseas

Platinum Asset Management is an Australian based international fund manager.
For greater insight into our process, please visit our website at *www.platinum.com.au*

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MLC-Platinum Global Fund

QUARTERLY REPORT

PERFORMANCE (as at 30 September 2010)

Fund Size: $1.4 bn	Last Quarter	Last 12 months	5 years (compound pa)	Since Inception (compound pa)
MLC Platinum Global Fund	-1.2%	1.4%	4.1%	11.4%
Morgan Stanley Capital International All Country World Net Index (A$)	-0.3%	-1.2%	-2.4%	4.3%

Source: MLC Investments Limited and Platinum

We must confess to being caught flat-footed by a change in sentiment at the beginning of September. The full ramifications of a new bout of quantitative easing eluded us and ignited equities to give one of the best Septembers on record. Reward was given to those whose portfolios were positioned for growth. We were not.

The Japanese market which normally responds to an improved growth outlook failed to rise. Speculative pressure undermined its competitiveness with a rush into the Yen and other currencies such as the Australian dollar and the Brazilian real that were seen as growth proxies.

Whilst it is tempting to throw caution to the wind, shorten one's time horizon and maximise momentum, our past experience would point us in the opposite direction as we have experienced these types of setbacks before. The best remedy is to reassess one's views but not change one's central focus of seeking out those companies which for transient reasons are experiencing neglect.

The combination of these adverse cross-currents left the Fund down 1.2% for the quarter and up 1.4% for the year. By contrast, the MSCI All Country World Net Index declined by 0.3% for the quarter and -1.2% for the year.

MSCI* WORLD INDEX SECTOR PERFORMANCE (AUD)

Sector	Quarter	1 Year
Materials	5%	7%
Telecommunications	3%	1%
Consumer Discretionary	3%	10%
Industrials	1%	5%
Energy	0%	-7%
Financials	-1%	-10%
Consumer Staples	-1%	6%
Utilities	-3%	-8%
Information Technology	-3%	-1%
Health Care	-4%	-2%

* Morgan Stanley Capital International — Source: MSCI

CURRENCIES

"Quantitative easing" (QE) is the word but currency distortions are proving the effect. It is indeed ironic that just as the US lower house passes a bill that could result in countervailing measures being brought against Chinese imports on the basis that China is manipulating its currency, the markets responded to QE by forcing the US dollar lower. Falling against all comers, though modestly against the Chinese yuan, momentum gathered through the quarter against the US dollar as speculators targeted the Asian currencies in particular.

To protect against this weakness we have been progressively moving out of the US dollar in favour of Asian currencies and even added to our holdings of Euro. We have virtually removed any exposure to the Yen, as we believe it is almost inevitable that Japan too will attempt to weaken its exchange rate indirectly through QE. The Chinese are still resisting a rise in the Yuan for fear of loss of competitiveness, but once the Asian currencies have moved yet higher, it will find its position isolated.

Platinum® ASSET MANAGEMENT

MLC

MLC-Platinum Global Fund Quarterly Report (Continued)

As we begin the new quarter, we hold 32% in European currencies, 26% in Asian currencies ex the Hong Kong dollar, 17% in the Australian dollar, 10% in the US dollar, 7% in the Hong Kong dollar and 6% in the Canadian dollar.

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS (NET INVESTED POSITION)

Region	Sept 2010	Jun 2010
Europe *	27.4%	27.6%
Asia and Other	19.9%	22.2%
North America *	18.8%	16.5%
Japan	18.6%	20.1%
Australia	0.4%	0.2%
Cash	14.9%	13.4%

Source: MLC Investments Limited

* At 30 September 2010, the Fund had a short position in the US against the Russell 2000 Index of 3.6% (30 June 2010: 2.6% and S&P Index of 6.7%) and the Dax of 1% (30 June 2010: 1%).

Concerns about growth led to a divergence of performance and valuations in the first two months of the quarter and gave us an opportunity to deploy some of our cash. We added to existing positions such as Prudential (life insurance); Carrefour (mass retailing); Pernod Ricard (beverages); International Paper (packaging, paper and pulp); Cisco (internet backbone); Royal Dutch Shell (petroleum); LG Display (electronics) and Shin-Etsu (PVC and silicon).

We sold out of long-held positions like Schneider (low voltage devices); SAP (IT software) and Bombardier (air and rail systems). They had each made a reasonable contribution and were sold because of their relative value rather than being particularly expensive. Further, we trimmed some of the very fast movers which were mainly in Asia and they continued higher at the close of the quarter.

Apart from adding several small companies that are tangential plays of resource shortages, the two significant new holdings are Bank of America and Vodafone.

Having emerged from the global financial crisis (GFC) as the leading retail bank in the now-more consolidated US banking market, Bank of America (BAC) has a market capitalisation of $130 billion, a 45% discount to stated book value and a mere 2.5 times its pre-provision pre-tax earnings. With significant write-offs having been taken during the GFC and having already built a significant buffer against future defaults, BAC is well-placed to weather the cost of borrowers throwing in the towel and walking away from their debts. With US employment and house prices seemingly stabilised, the burden of defaults should ease, increasing the portion of pre-provision earnings going to shareholders, even as the absolute size of that pool is whittled down by a harsh regulatory backlash and the end of America's love-affair with debt. Even with our enthusiasm tempered by concerns about the headwinds Western banks face, and by our experiences in post-bubble Japan, we are nevertheless drawn to what we see as an attractive opportunity in a sector facing increasing investor apathy.

Vodafone seems to be changing its ways. Having been a serial acquirer, and not always at the best prices, the new management team is settling down to clear out minority investments to reduce debt and focus on its broad portfolio of wireless phone properties around the world. These are indeed extensive and unlike many of its competitors, Vodafone is exclusively a mobile phone/data operator, with no exposure to diminishing fixed line services and, almost without exception, is the largest or second largest provider in its principal markets.

We think this is important from a structural point of view where rapid deployment of smartphones will bring economies of scale to the fore[1]. Ultimately, there will be a winnowing out of players. The remarkable observation for all the conflict in the field: falling voice call prices, handset teaser offers, customer churn levels that would make a motel operator proud, the enormous cost of procuring spectrum licences... and the leaders still make above average returns on capital. This is not a strong growth story but there is an outside chance of profits being stronger than is currently being priced into the sector. In the meantime, one collects a dividend well-above the bond rate with the underlying economics of the business improving.

COMMENTARY

The challenge facing fund managers is to deal with the frequent paradoxes thrown-up by the markets. This is proving particularly trying at the moment with there still being concerns about the rate of recovery, yet the stock markets are on a roll. At quarter end, it was the common belief that the flood of money from yet more quantitative easing combined with massive speculative flows across the foreign exchanges, promised an almost certain bet. If the US economy is weak, the Federal Reserve will buy yet more bonds, thereby injecting even more liquidity. Alternatively, if the economy improves, there is less risk for financial assets anyway.

1 The market leader in Korea, KT Corporation, has experienced a massive 40 times increase in data use from its initial iPhone users; while iPad users are seemingly utilising 10 times that of an iPhone user...

Belying this pacific setting is the spectacular whirl of funds across the exchanges as the likes of China recycle their surpluses into the asset markets of the world. Without this intervention, which partially gives rise to these surpluses, the Yuan would probably be the strongest major currency in Asia rather than the weakest. As we have noted in previous quarterlies, recuperation of the industrialised world's health cannot be achieved while the second largest producer on this planet maintains exchange controls and attempts to imitate the mercantilist policies of those adopted by Japan in the 1970s.

It cannot be much fun either for the rest of Asia, as these flows drive their currencies stronger, giving further advantage to the mega-competitive economy of the region. Some are resisting this pressure by offering more of their own currencies in exchange, and in-turn, participating in the recycling merry-go-round. (Trade surpluses in Asia are accumulating at about US$50 billion each month). At the same time the rise in the value of the Yen and Euro is stripping away the competitiveness of exporters from those countries which is an important driver of their economic recovery.

We spent part of the last quarter visiting India and China. One is of course struck by the sense of purpose of those one meets and the tempo of change. India was reminiscent of 1994 when the sky had no limit and the stories grew in the telling. The hot sector of the moment is infrastructure - particularly acquiring and building road concessions, and building electrical power plants. The shareholder presentations are immaculately packaged for those with lucid imaginations but fortunately the chase of the crowd does leave room on the periphery for those with less need for instant gratification.

The Chinese "H" market (listed ex China) too has the feel of great excitement. The government is keenly aware of the problems of trying to control so many variables at once and hence is resorting to administrative measures, particularly in the housing market but also among the less efficient segments of energy intensive industries like cement and steel. There is tacit acceptance of the need for wages to adjust upwards in real terms and by so doing, to drive manufacturers to raise productivity or fade out of the market.

The benefit of greater disposable incomes has not been lost on investors, as the valuation of branded consumer companies have reached dazzling levels; typically 35 to 45 times 2010 earnings!

We tried to assess the degree to which the property market is oversupplied. The table below gives a hint of the magnitude of the urban building cycle which is being matched by gargantuan projects to provide rail, road and pipelines from one side of this vast 9.7 million km^2 country to the other[2].

TOTAL GROSS FLOOR AREA OF RESIDENTIAL BUILDINGS SOLD IN CHINA – 2004 TO 2009

	2004	2005	2006	2007	2008	2009
Millions of square metres	397	496	554	701	593	853
Billions of Renminbi	1036	1456	1729	2557	2120	3816

* Source: CEIC Data Co Ltd

Without having a comprehensive understanding of the quality of the initial stock of urban housing and the degree of over-crowding, nor the level of urban demolitions, we cannot reach a reliable conclusion. However, urban household formation seems to have averaged between 7 and 8 million pa for the last 14 years; essentially double the figure of the preceding 10 years with persons per household dropping from close to four in 1985 to about '2.9' in 2009[3].

This throws up a problem. Suppose we say the "average dwelling" occupies say 100 m^2, then as shown by the table, the apparent demand for new urban household formation was only matched by the number of dwellings sold in 2007 and 2009. There may be unsold inventory, but in relation to the annual demand, how significant can this be? Note how the market was absorbing 400 million m^2 to 550 million m^2 from 2004 to 2006 and then stepped up dramatically in tandem with the country's stimulus response to the GFC in 2008-09.

Unbridled optimism characterised every meeting (some 20 meetings). Without wishing to detract from the entrepreneurs who have built wonderful businesses, one is frequently reminded of the carpet bagging that has so distorted the distribution of wealth in China. Other factors that can contribute to a sense of omnipotence and hence overconfidence is the support that is given by the government to ensure the rapid and almost costless transfer of technology, the preference given to indigenous companies, the huge scale of the domestic market and the recent history of persistent growth.

2 Depending on definitions, the size of the large jurisdictions are approximately as follows: Russia 17mn km^2; Canada 9.9mn km^2; US and China each around 9.8mn km^2; Brazil 8.5mn km^2 and Australia 7.7mn km^2.

3 Over the same period rural household formation peaked in about 1997 at 194 million and then dropped by about one million each year subsequently. There are now approximately 179 million rural households and they comprise four persons on average.