For most markets, the technical factors are also encouraging.

- The reopening of the corporate bond markets will relieve refinancing risk concerns for companies with above average debt levels.
- Company valuation measures, such as price to book value or enterprise value to capital employed, are back to levels last seen in 1985.
- The relative value of defensive companies compared to those which have cyclical earnings are at an historic extreme as investors have sought the comfort of predictability.

A survey of investor sentiment by Merrill Lynch[3] reveals that most professional investors already expect corporate profits to "deteriorate strongly" and hence one can surmise that this is priced into most companies valuations.

Portfolio cash levels are also high by historic comparison with figures out of the US suggesting they are equivalent to 75% of the US equity capitalisation.

Lastly, selling pressure seems to be abating and share prices are tending to move sideways-to-up against a crescendo of bad tidings. Historically, iconic insolvencies have often been closely related to market lows; in this instance we can consider Lehman and the issue of the big three auto companies.

The coming months will require some agility and we will look to the opportunity to continue to winnow the portfolio for those superior companies which, even though their profits may come under pressure, will be able to generate free cash flows.

3 The Merrill Lynch Fund Manager global survey with 206 respondents from 5-11 December 2008.

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

132 652 from anywhere in Australia or
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 31 December 2008)

Fund Size: $1.61 bn	Last Quarter	Last 12 months	5 years (compound pa)	Since Inception (compound pa)
MLC-Platinum Global Fund	0.4%	-17.6%	4.7%	11.3%
Morgan Stanley Capital International All Country World Net Index (A$)	-12.2%	-27.2%	1.5%	4.8%

Source: MLC Investments Limited and Platinum

The Fund has continued to be remarkably stable during these highly turbulent times. Of importance was what one avoided, as much as what one owned.

Thankfully we continued to avoid the Western financials, resource producers and energy plays, and benefited from favouring the strong currencies, in particular the Japanese yen. Among our stocks we recorded mixed weakness. Companies with debt levels that would normally be regarded as tolerable were harshly treated early in the quarter on concerns about refinancing risk but these subsequently recovered strongly. Hence, the Fund was up 0.4% for the quarter, up 1.2% for the last six months and down for the year by 17.6%.

Though clients lost money, we certainly gave them more protection than was afforded by most of our peers. For the record, the MSCI All Country World Index (A$) was down 12.2% for the quarter, -10.9% for the last six months and -27.2% for the year. Since inception the return from the MLC-Platinum Global Fund has been 11.3% compound pa versus 4.8% compound pa for the MSCI World Index.

MSCI* WORLD INDEX SECTOR PERFORMANCE (AUD)

Sector	Quarter	1 Year
Telecommunications	5%	-19%
Utilities	2%	-12%
Health Care	1%	-1%
Consumer Staples	-2%	-4%
Industrials	-12%	-31%
Consumer Discretionary	-13%	-27%
Energy	-14%	-27%
Information Technology	-15%	-30%
Materials	-19%	-40%
Financials	-25%	-42%

* Morgan Stanley Capital International
Source: MSCI

CURRENCIES

We reversed some of our US dollar exposure during the quarter in favour of the Euro and continued to trust in the Japanese yen. This has worked well but the untangling of debt, which we have previously alluded to as the supporting mechanism for the US dollar, remains intact and this will guide our positioning for a while yet. The Australian dollar has been trading more strongly during the quarter but at this stage it seems unlikely to strengthen much past the mid-70s to the US dollar. In retrospect we re-entered the Australian dollar hedge a little early but with some 26% of the portfolio hedged, it has proved beneficial recently.

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS (NET INVESTED POSITION)

Region	Dec 2008	Sep 2008
Europe	25.9%	24.7%
Japan	22.2%	20.4%
North America *	20.6%	13.3%
Asia & Other	16.8%	18.3%
Cash	14.5%	23.3%

Source: MLC Investments Limited

* At 31 December 2008, the Fund has a short position in the US against the Russell 2000 Index of 4.8% (30 September 2008: 13.2%).

We have been relatively inactive in value terms during the quarter and have tended to use the high volatility to either add to core positions or to trim those that moved out of line with their peers. While marginal in terms of its impact on the overall portfolio, the inter-week moves have been colossal and have allowed us to take advantage of senseless panic.

Platinum ASSET MANAGEMENT

MLC

MLC-Platinum Global Fund Quarterly Report (Continued)

MLC-PLATINUM GLOBAL FUND – TOP 20 STOCKS

Stock	Industry	Dec 08
Microsoft Corp	Technology	3.4%
Siemens	Electrical	3.2%
Mitsubishi UFJ Financial Group	Financial	3.2%
Barrick Gold	Mining	2.9%
Cisco Systems	Technology	2.8%
Sanofi-Aventis	Health Care	2.4%
Hutchison Whampoa	Telco/Transport	2.4%
JGC Corp	Construction	1.9%
Hornbach Holding	Retail	1.9%
Merck & Co	Health Care	1.9%
Johnson & Johnson	Health Care	1.9%
Bombardier	Transport	1.9%
Henkel KGAA	Consumer	1.8%
Obayashi Corp	Construction	1.8%
Denso Corp	Auto Components	1.8%
Toyota Industries Group	Machinery	1.7%
Polaris Securities	Financials	1.7%
Samsung Electronics	Electrical	1.7%
BMW	Auto	1.7%
Newmont Mining	Mining	1.6%

Source: Platinum

COMMENTARY

As we look back over this year, even those who identified the reckless extravagance that resulted from easy money[1] would surely be surprised at how quickly the environment changed and at the damage wrought to the global economic order. George Soros, prescient as ever, in his article in the *Financial Times* (22 January 2008) pointed to the crazy belief in the perfection of markets when so much evidence supports the idea that they are inherently unstable and need close supervision. His main point, however, was that **we had come to the end of a 60 year credit boom** and that *"the ability of the (US) financial authorities to stimulate the economy is constrained by the willingness of the rest of the world to accumulate additional dollar reserves"*.

The Fed, following a pattern of ever quicker responses to economic distress, acted well-ahead of any pronouncements of a recession[2] and by mid-December, had dropped rates to virtually zero. **They have further entered the unknown by directly buying long-term treasuries in order to reduce interest rates right along the yield curve.** This is already beginning to help the refinancing of mortgages at lower rates and has begun to improve the level of activity in the corporate debt markets. (As an aside, this is in effect punishing all those savers who had conjured up hopes of saving for their future security, but in this politically charged panic, that is the least of the Fed's concerns. Followers of the Austrian school of economics view the Keynesian approach adopted by the Fed as tantamount to adding fat to the fire because they believe that without saving and concomitant investment, an economy starves itself of growth potential, and condemns itself to weak formation of wealth.)

We have entered the unknown to the extent that we cannot know how enthusiastic lenders will be to extend credit nor how willing borrowers will be to take on more debt. We should not forget that the level of outstanding interest bearing obligations in the US now exceeds 350% of GDP. The consumer accounts for nearly four tenths of this figure (where servicing it absorbs 14% of disposable income), the government one sixth, and the balance is owed by the financial sector and ordinary businesses. This compares with a total figure of 155% in the early 1980s when consumer debt accounted for about one third.

1 Regular readers of this quarterly will be only too familiar with our bleating about cheap and abundant money and forewarnings of the likely consequences.

2 Though US unemployment has been rising all year, the official declaration of a recession only occurred in the fourth quarter.

It may be instructive to note that subsequent to the Japanese credit bubble that peaked in 1990, domestic banks failed to increase the net level of loans for the following 18 years. This is starkly different to the pattern in the English speaking world where for over 50 years there has been an almost incessant increase in the use of debt. Our observation is that most Western banks are **extremely thinly capitalised and will have difficulty stepping into the breach.** For example, the top 19 US banks had net equity at the end of September 2008 of US$552 billion, implying a Tier 1 capital ratio of 4.4%: quite slender when set against the declines in housing values and before the news is out on their commercial books.

As 2009 unfolds, the performance of the manufacturing sector may receive rapt attention. As we toured European companies in mid-December, there was the recurring observation that orders fell-off sharply from mid-October and that in November and December, to receive orders at all was a source of jubilation. The effect of this hiatus will be revealed in the next reporting season. Of concern is not the one-off reduction of activity as destocking takes effect, but the actuated feedback loop as it impinges on employment, involuntary working capital increases, bad debts and the need for additional funding. It is precisely this concern about business confidence that is motivating pre-emptive action by the Fed and other Central Banks.

Some have expressed concern about the printing of money (also known as quantitative easing) but our view is that the sheer magnitude of debt in many developed economies will militate against pricing power and hence the risk of inflation is some way off. We should all keep at the back of our minds, however, that history is studded with examples of **governments abrogating their obligations when cornered** and indeed, we suggest that the intractability of the obligations now being incurred will in time drive those in power to follow an expedient route. **Equities in such an event, while not perhaps ideal, will be a lot more interesting than cash or bonds.**

OUTLOOK

We are asked about the timing of an equity market bottom. It is not possible to oblige. What we see is an **overlapping three phase bear market**. The first phase was the **seizure of the credit markets.** This is now well on the way to being resolved.

The second phase is the **collapse of profitability** led by commodity producers and manufacturers of durable consumer goods but also apparent in the service sector such as retailers, media and the like. Some will be largely immune such as power, water and communication utilities. As noted last quarter, analysts are lagging well-behind fund managers in their revisions of earnings but the pattern of downgrades is now accelerating and we would guess that by the end of the first quarter 2009 reporting season, reality will have truly set in. A factor to be watched over the longer term is the damage which may result from governmental intervention to prop-up ailing businesses.

The third phase may reveal a **change in portfolio and geographic preferences.** We may already have seen some of this with the voluntary or forced liquidation of equity positions as investors increased their cash holdings or sold them as a hedge against less liquid assets such as property and commercial paper. It would be surprising if this down phase is not marked by investors questioning the true merit of owning shares and some vowing never to participate again!

In the meantime we are quite upbeat. The new administration in the US is bound to spend liberally to try to avert a deep recession. The temptation may be to favour expediency over the longer serving benefits of bolstering the country's infrastructure. However, governments worldwide can be expected to deficit spend with some emphasis on capital works. At the same time the effect of a lower oil price is highly beneficial to consumer incomes and this should lift consumer confidence.

From the compositional angle, in general terms **we still favour Asia over the Western hemisphere.** Not that Asia will escape a reduction in foreign direct investment, nor deteriorating trade surpluses but their state finances are in good shape, their banks' solvency ratios are barely affected by the credit crunch/write-offs and of course, bank funding tends to be from domestic sources. Countries such as India may face a weaker Rupee to offset its less favourable fiscal position, but on the other hand, it has far less exposure to external trade than say China.