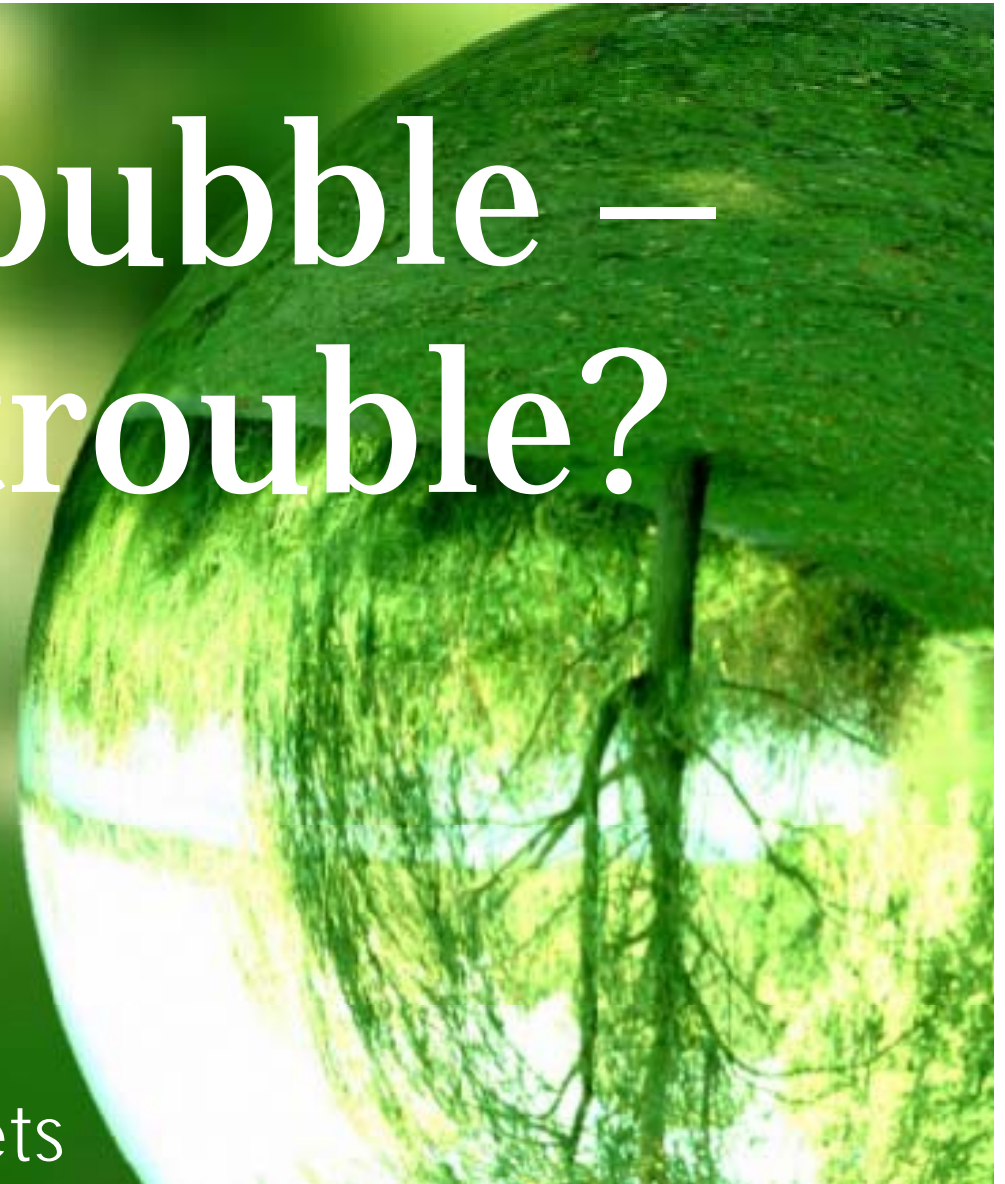


Bubble, bubble – toil and trouble?

15 February 2011

facilitating
debate on the
outlook for the markets





Jacob Mitchell

Portfolio Manager

Platinum Asset Management

Jacob Mitchell

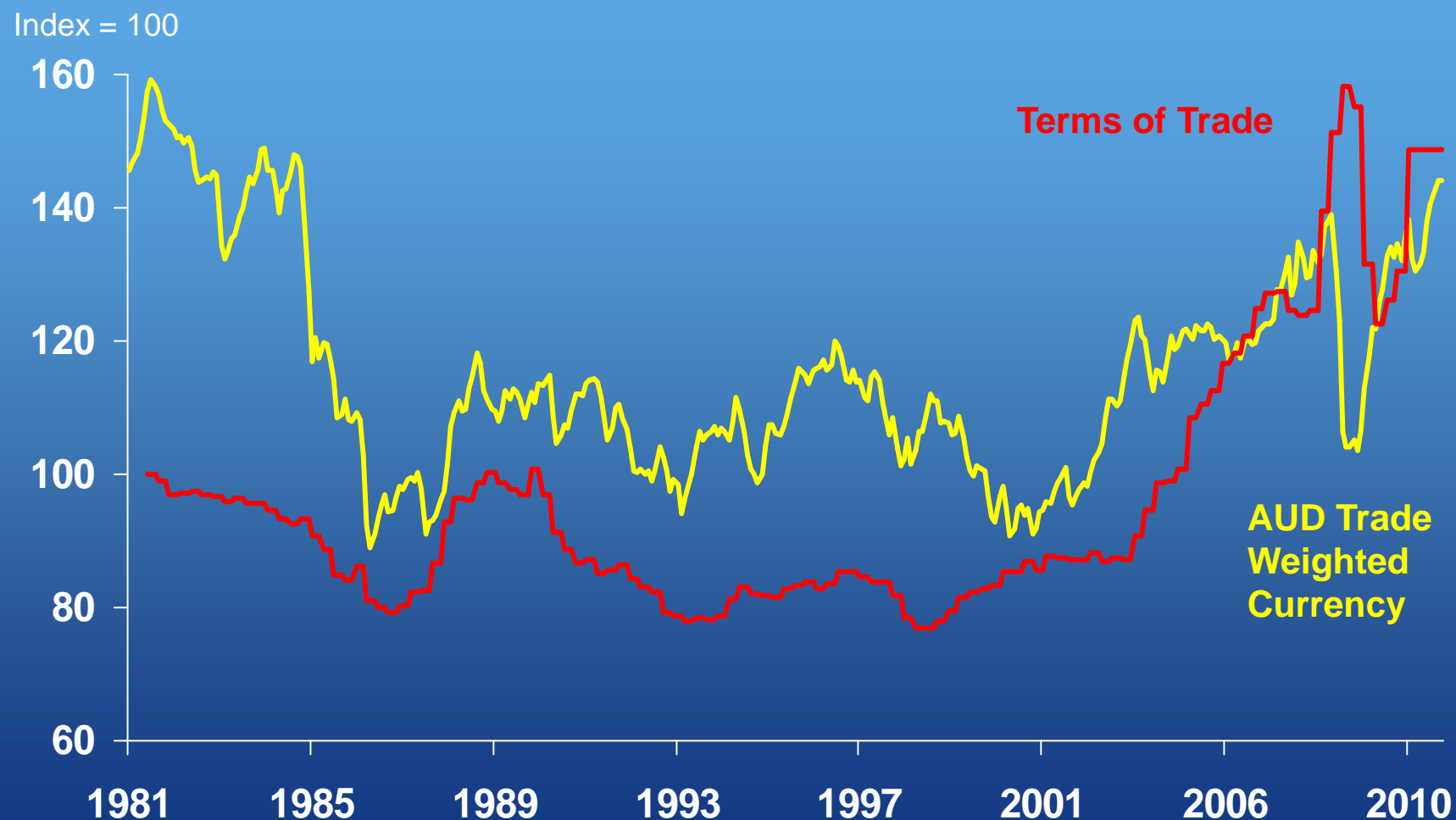
Platinum Asset Management

AFSL 221935

PortfolioConstruction Markets Summit 2011

15 February 2011

2010 surprises... strength of the Australian dollar



Source: Factset

Surprises... looseness of Chinese policy settings



Source: Factset

What we got right and wrong...

Right:

- Emerging market consumption boom eg. China Resources Enterprise, Bangkok Bank

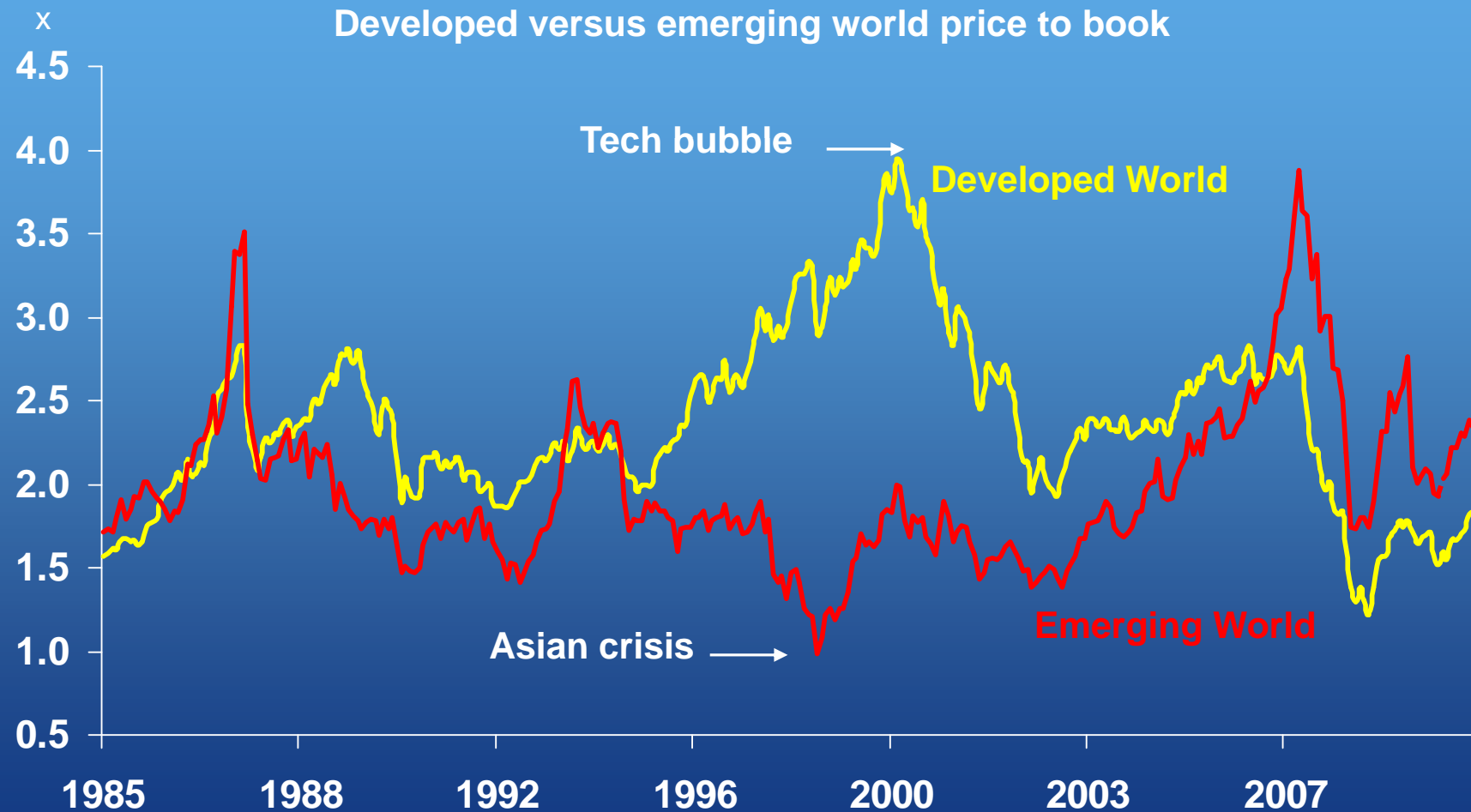
Wrong:

- Too sceptical on China's infrastructure-related commodity demand
- Too little AUD hedging, too much USD exposure
- US industrial shorts

Key lessons learnt

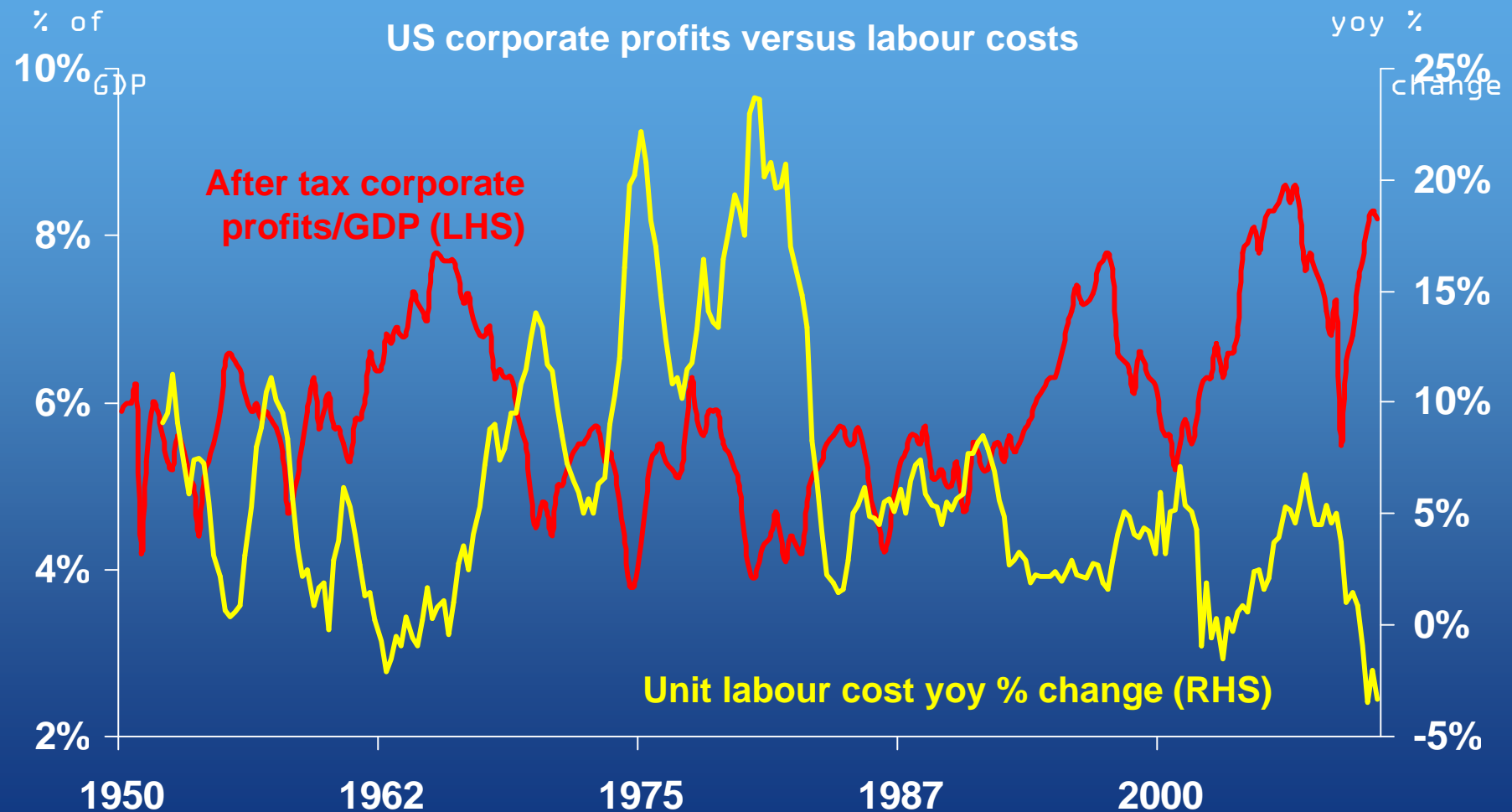
- Avoid the crowd
- Understand the business
- Price is everything; good investment decisions are usually uncomfortable
- Macro understanding, however, regrets are inevitable

Bubbles... hard to argue from a valuation perspective



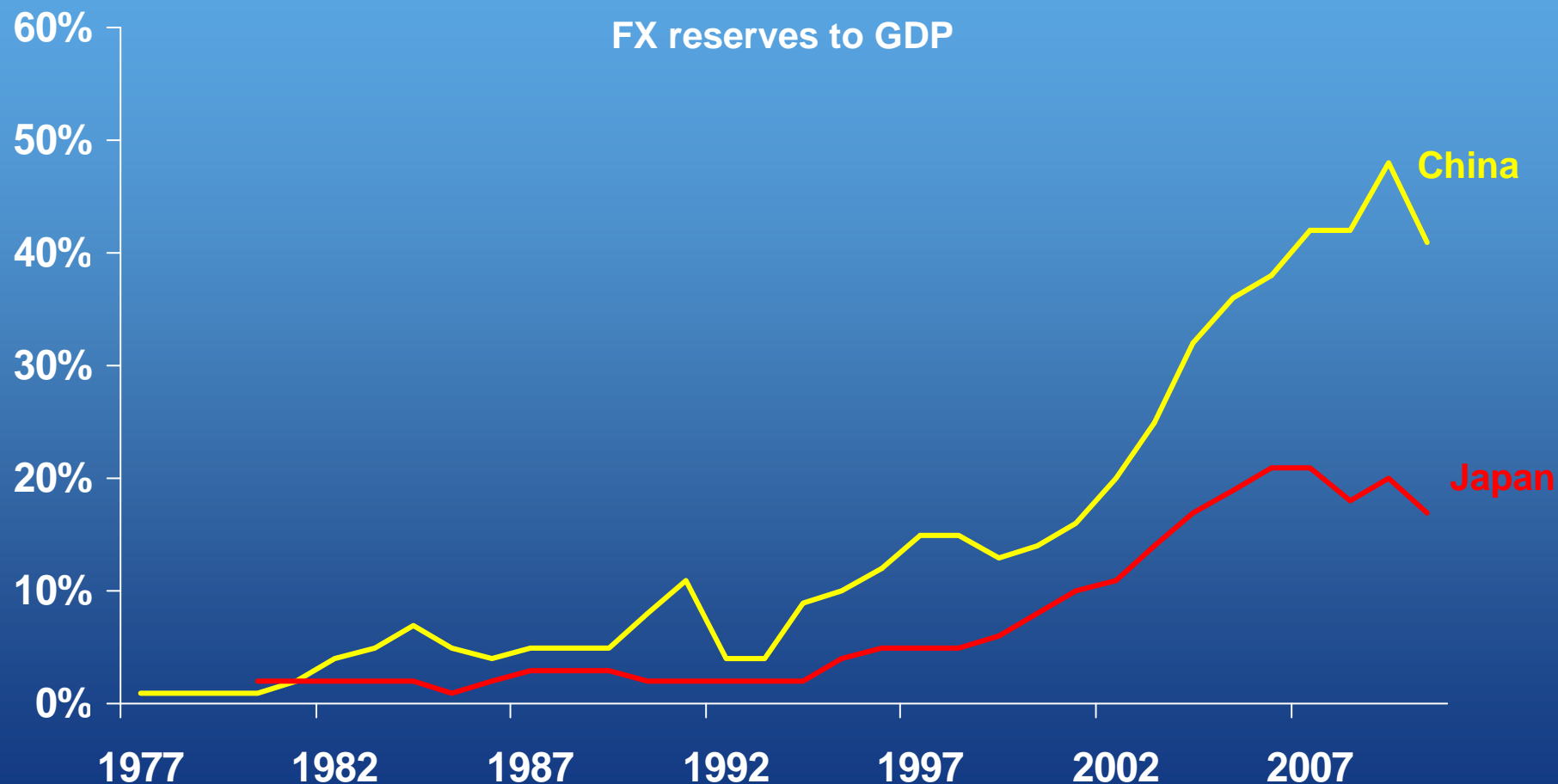
Source: Factset

Bubbles... corporate profit share unsustainably high?



Source: Factset

Bubbles... Asian reserve accumulation, when will it stop?



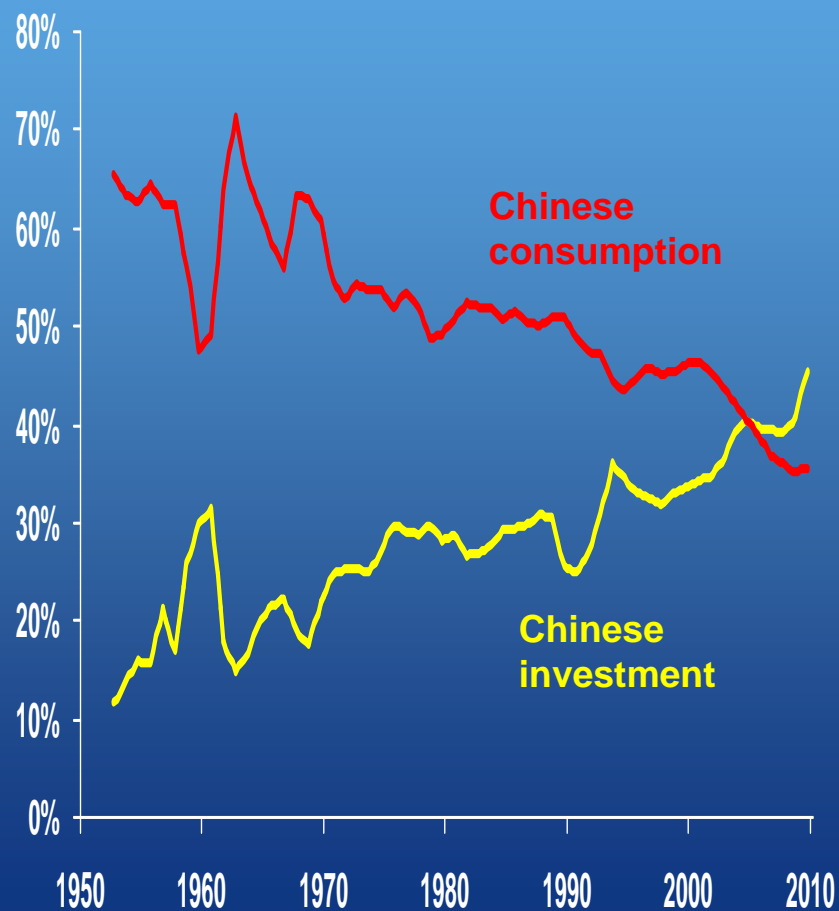
Source: Factset

Three year outlook

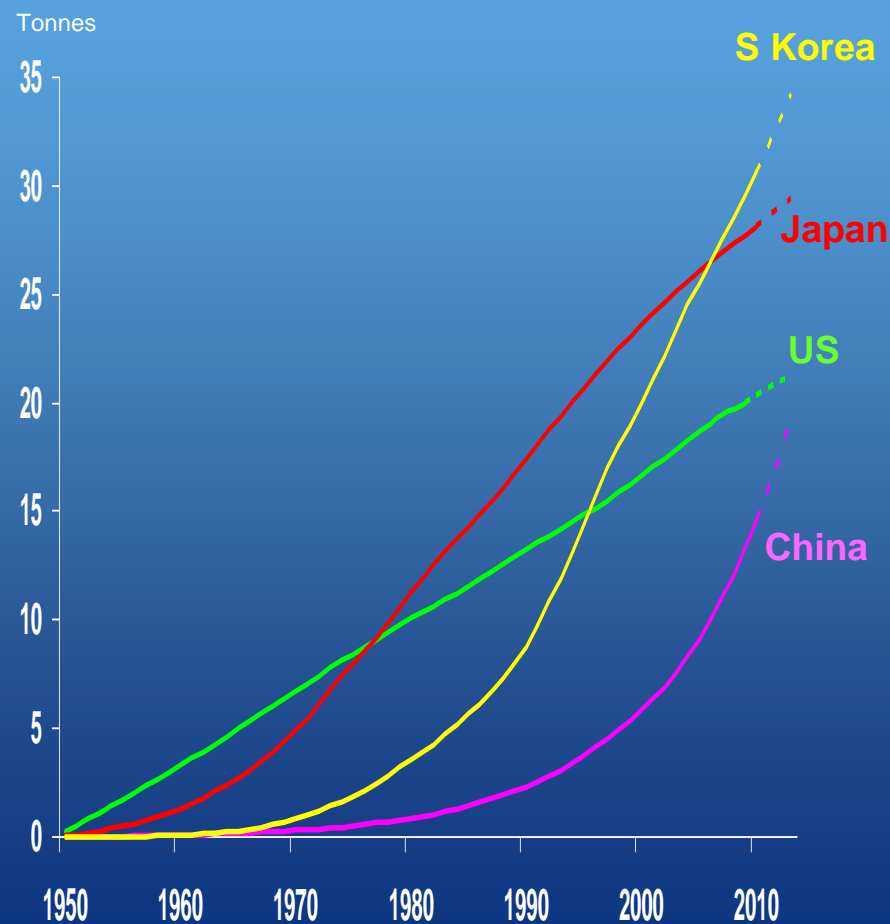
- China's slow transition to a consumption driven economy
- Western recovery in infrastructure investment
- Asian currency alignment

Risks... avoid infrastructure related commodities eg. Cement and steel

Chinese consumption & investment to GDP

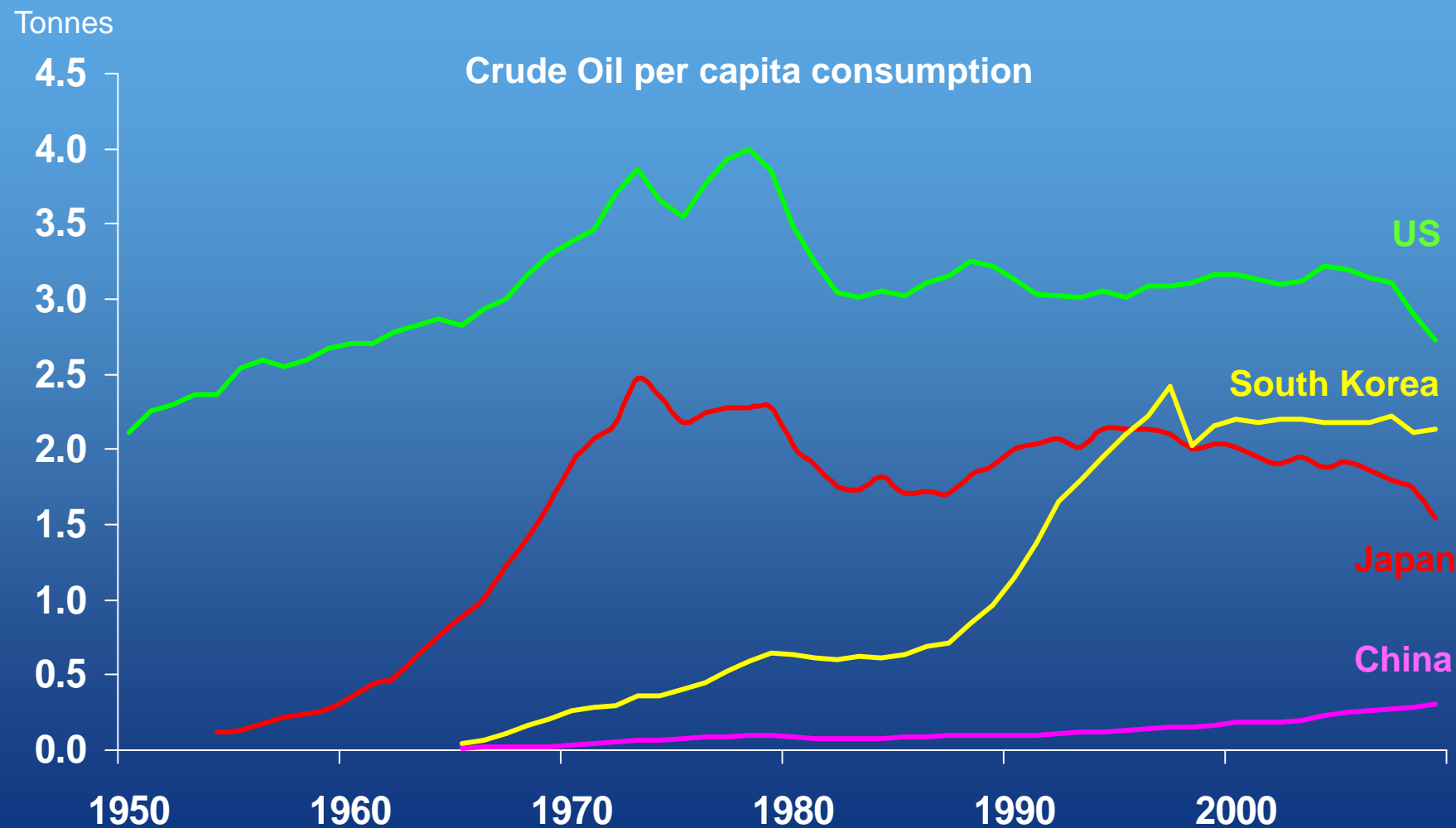


Cement put in place per capita



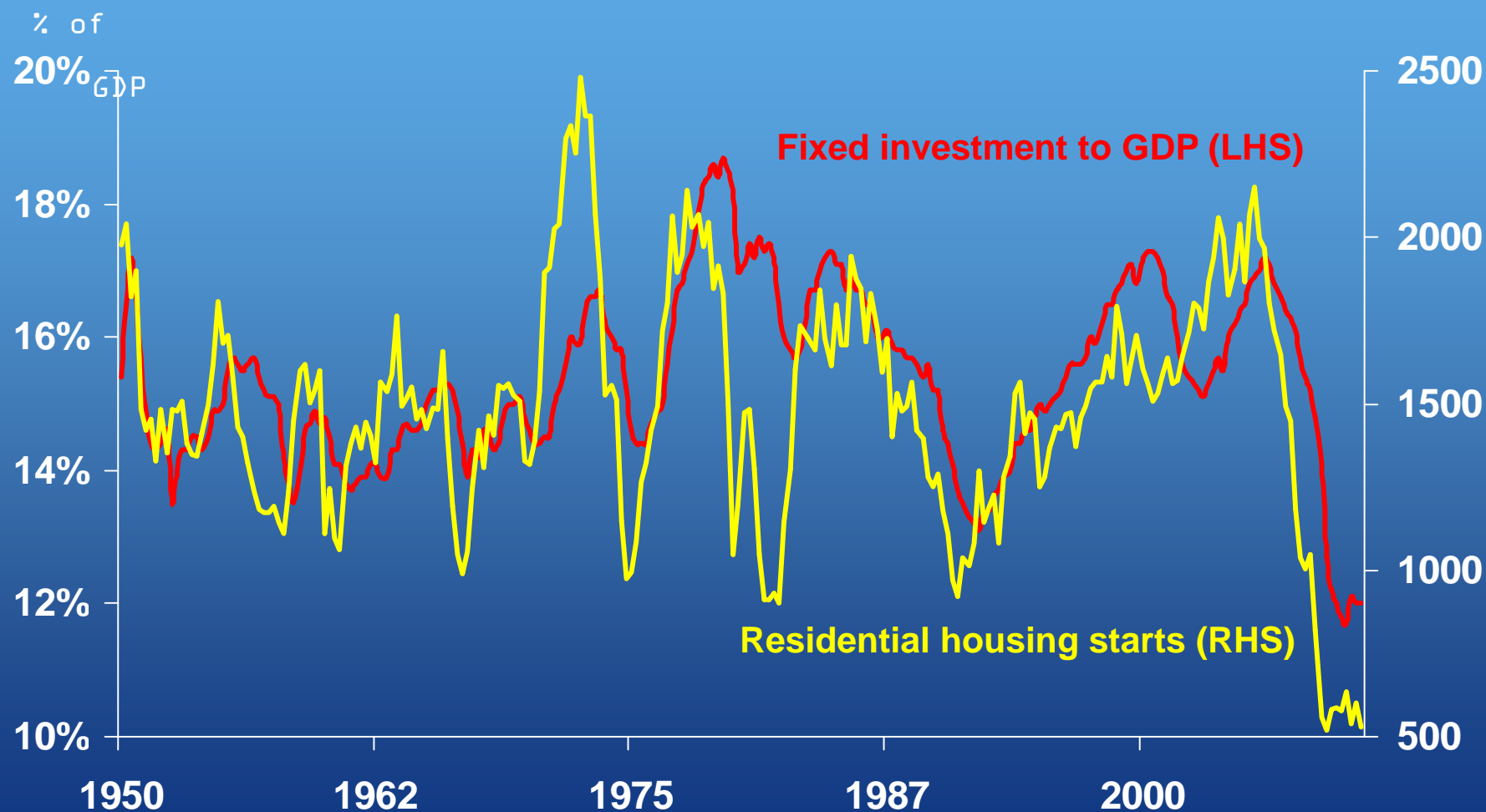
Source: Factset

Opportunities... consumption bottlenecks eg. oil, pulp, polymers



Source: Factset

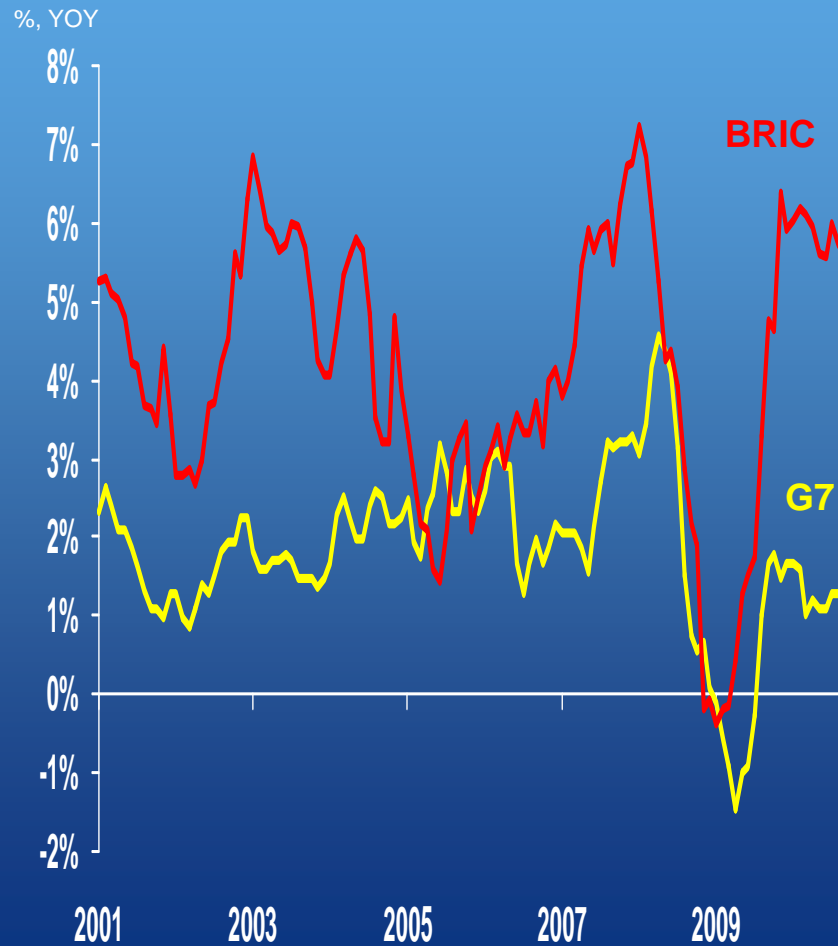
Opportunities... US investment running at unsustainably low levels



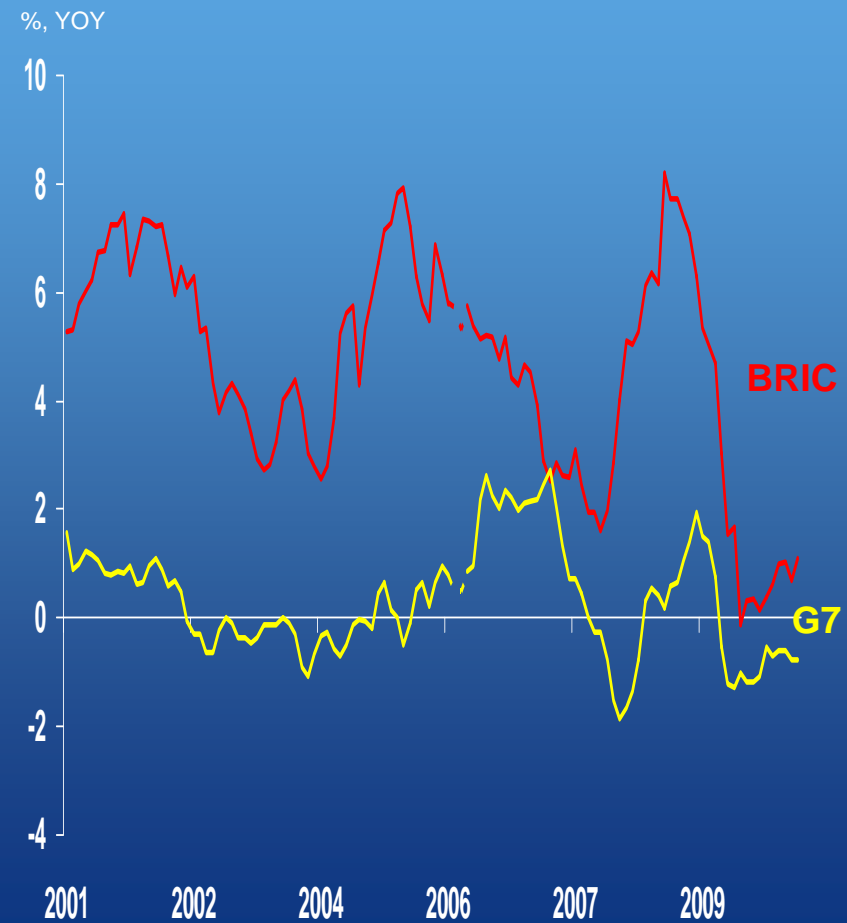
Source: Factset

Risks... Asian inflation

Inflation (G7 vs BRIC)

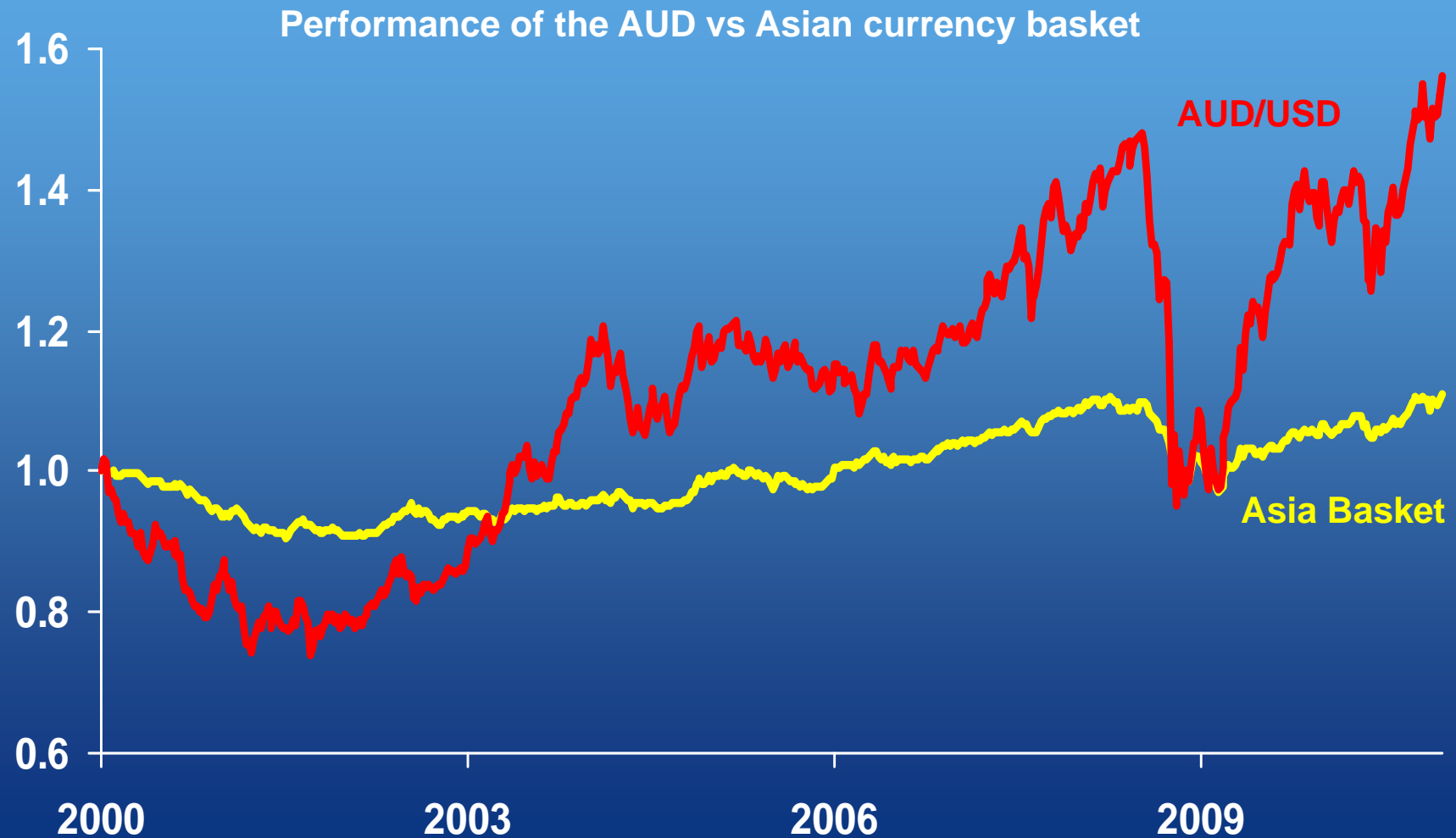


Real Policy Rates (G7 vs BRIC)



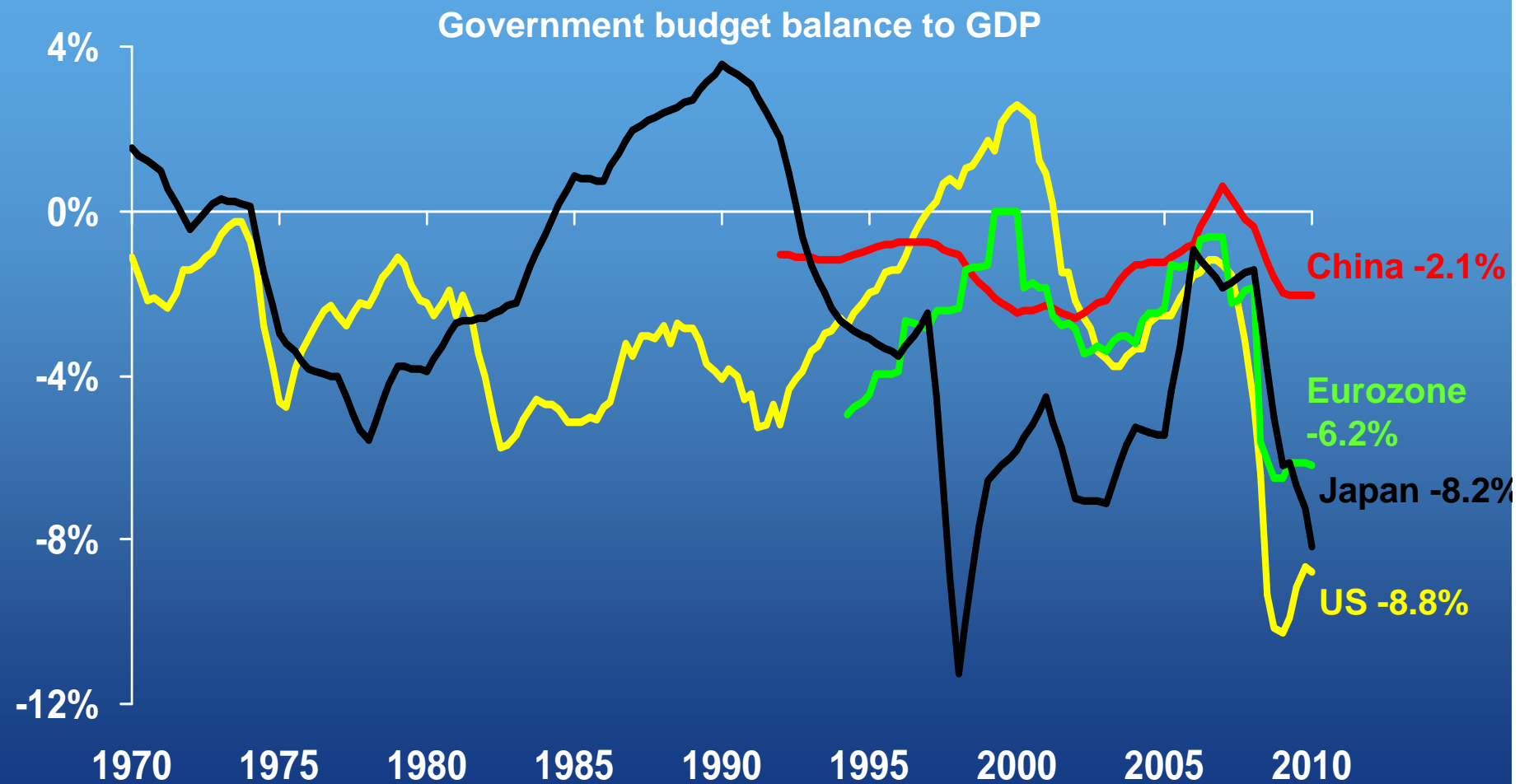
Source: Factset

Opportunity... Asian currency realignment



Source: Bloomberg

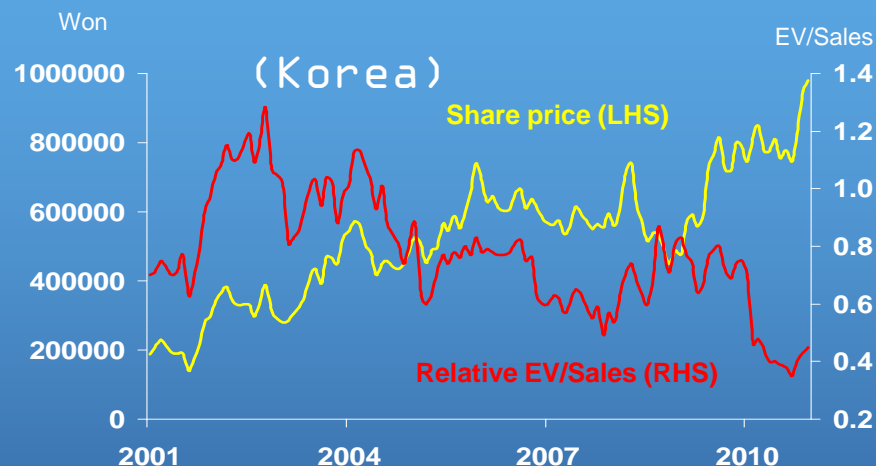
Risk... sustainability of fiscal stimulus



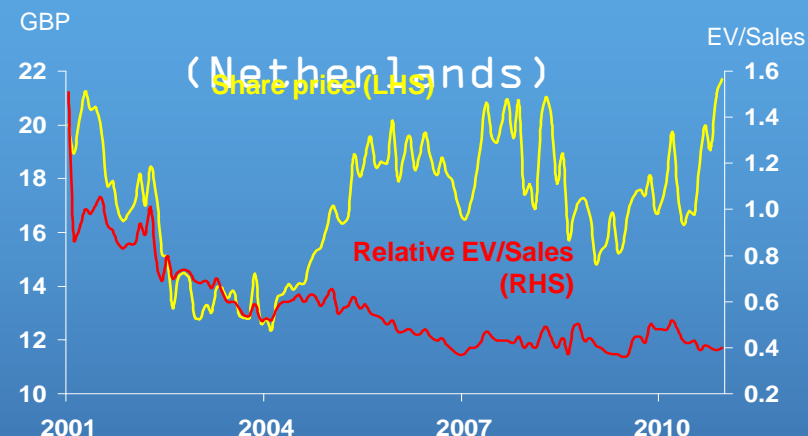
Source: Factset

Four of the Platinum International Fund's top six holdings

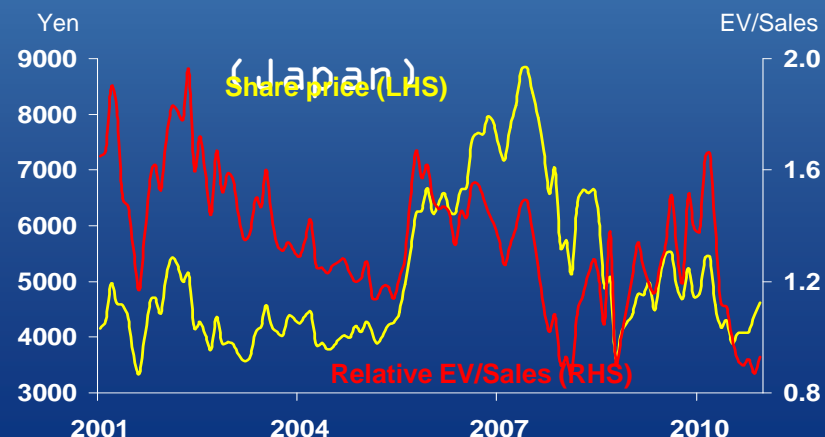
Samsung Electronics



Royal Dutch Shell



Shin-Etsu Chemical



International Paper



Source: Factset

Key signposts for the next 12 months

- Higher short-term US rates → indicates a sustainable US recovery and would fuel an ongoing unwinding of emerging market overweights
- Commodity inflation → too rapid and the global recovery will end prematurely
- Growing discomfort with fiscal deficits – higher real rates could kill the consumption rebound

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