PLATINUM EUROPEAN FUND

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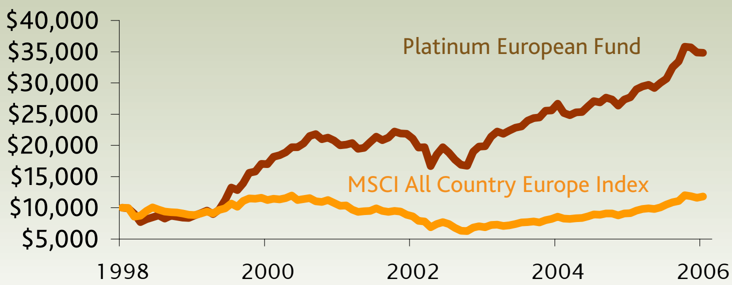
PERFORMANCE

After six months of frothy, risk-affine activity, European markets followed the rest of the world in the set-back of May and early June. Overall we were impressed at the resilience on the continent, considering the over-enthusiasm evident by March/April. As we write the markets continue a "relief rally", but the acute sensitivity to the Federal Reserve Board utterances evidences the vulnerability of risk assets to the steady increase in the cost of money. The reluctance of European market participants to leave the M&A party, the surprising hand-wringing in response to the modest recent declines, and the chorus of strategists preaching "buy the dip" all suggest that the coming months may see further selling.

From its peak in early May to its recent low in mid-June, the German DAX index declined 15%, though over the full quarter the loss was under 5%. As we have noted before, the DAX tends to be among the most volatile of the large markets, so the overall 4.8% fall is gentle indeed. Overall the European markets fell 3%, and the weaker A$ versus the euro et al resulted in an A$ MSCI result for the quarter of -2%; for the 12 months the MSCI Europe was up 19% locally, and 29% in A$.

The Fund performed poorly in the quarter, down 3%. Surprising weakness was seen in the Fund's large capitalisation "technology" holdings: Alcatel (-22%), and Ericsson (-20%) proved costly over the period. The "surprise" stems from the fact that these stocks had by and large seen modest share price performance in recent times, are clearly "large" capitalisation stocks (we continue to believe the

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 30 JUNE 2006



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

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY			
CATEGORIES	EXAMPLES OF STOCKS	JUN 2006	MAR 2006
TECH/MEDIA	INFINEON, ALCATEL, ERICSSON	**20%**	**23%**
CHEMICALS/MATERIALS	NORSKE SKOG, UPM, SHELL	**18%**	**17%**
CONSUMER/RETAIL	HENKEL, HORNBACH, DOUGLAS	**18%**	**17%**
CAPITAL GOODS	SIEMENS, RIETER, METSO	**17%**	**19%**
MISCELLANEOUS SERVICES	TNT	**5%**	**4%**
PHARMACEUTICAL/BIOTECHNOLOGY	NOVOZYMES, SCHERING	**4%**	**6%**
FINANCIALS	CREDIT AGRICOLE	**4%**	**4%**

Source: Platinum

overvaluation is in the smaller stocks), and have decent business performance and prospects. In addition, the Fund has 7% invested in the paper sector, and the poor performance of this area (at -13% among the weakest industry groups in Europe) is a good example of neglect not necessarily helping - or even offering protection - in the short-term. Over time, however, this "odd man out" of the commodity boom should provide a decent return. Finally, German pay-TV company Premiere continued to decline after the (December 2005) loss of domestic football rights. The stock market price assumes the business is almost worthless without the German soccer - this seems an exaggeration. Otherwise the short positions on the German DAX index, as well as on selected Spanish and German banks provided some protection to the general market sell off in May/June. DAX shorts were reduced by a third near the lows of mid-June. Our 30% positioning in the A$ was unhelpful. For the 12 months the Fund returned 26%.

COMMENTARY

Company visits - Germany, UK, Italy and France

Before the evidently attention-grabbing soccer contest got underway in Germany, we visited that country, Italy, Paris and London seeing 40 companies in late May/early June. The themes we were pursuing included railways, media and health care technology; in general larger companies were favoured over the small.

One surprising message was that the geographic breadth of demand as well as profitability are such that many historically "cyclical" companies would like to believe that stable conditions are now the norm. "The cycle is no longer" claimed several executives who cannot believe their luck. Without wanting to discard the reasoning behind this (usually false) hope, we would observe that such sentiment is consistent with an already realised profitability uplift, rather than likely to precede such a step change. For this reason the current European market valuation level of 12-14 times (price to earnings) is less appealing than it would have been over the last decade. That is, with profits at an all time high (versus GDP, say) there is less room for improvement than otherwise!

Siemens, Philips

With this in mind, those companies with strong business positions and yet unsatisfactory profitability stand out as potentially interesting candidates. We had meetings with both Philips (medical division - one of the "big three" beside GE and Siemens), and with the recently appointed CEO of Siemens itself. Philips is a company which has historically had considerable research and development success, but has not always managed to exploit its breakthroughs commercially. Siemens can also be characterised as an innovative workshop, but one whose products are often "over-engineered", and where general overmanning has meant that the commercial surplus is enjoyed by staff rather than shareholders.

Philips has a curiously successful consumer products division (ie. in addition to the ongoing success of Philips lighting - another shared feature with Siemens), while outside Osram, Siemens tends to struggle with consumer businesses: the mobile handsets division ("given" to a now struggling Taiwanese company) is the most recent example. The question of whether these innovation-led companies can ever make really big profits is unclear. Consider Siemens' annual R&D expense, at euro 5.1 billion (nearly $A9 billion!) which is considerably more than its pre-tax income. However, instead of lamenting that their "competition" are not-for-profit university researchers and government agencies, both companies are altering their mix of businesses to position themselves in fewer - and seemingly more profitable - areas.

As we have mentioned in past reports, Siemens has made a lot of progress over the last decade under Dr von Pierer (who is now chairman of the board); the new CEO, Dr Kleinfeld appears to be accelerating the pace of change. In recent weeks the company has pushed its problematic telecom networks business into a joint venture with Nokia (please refer to Alex's Technology Fund report for a discussion of industry consolidation in this area), while buying two big diagnostics businesses in the medical area. These two medical purchases alone cost nearly euro 6 billion, and are at valuations that we find hard to stomach on first glance. However, Siemens makes the case that the speed and global reach benefits of "paying up" outweigh the cost savings of their traditional home-made, time consuming, labour intensive approach. Very clearly Siemens' expansion is now focused on the three areas of energy, medical, and automation. These are three vast industries, but a more targeted approach than the ***eleven*** existing divisions have enjoyed hitherto.

Philips, similarly, has made several large acquisitions in the medical area in recent years, and has now joined Siemens and GE in the big league of medical imaging hardware suppliers such as X-ray, MRI/CT, etc. As it standardises its product offering and exploits its scale in this area, Philips has a reasonable expectation of improving profitability toward the GE standard. Meanwhile, in its desire to move away from so-called "cyclical" areas, the company will sell its semiconductor division later this year.

We remain concerned that Philips is a little more prone to fashion in its strategy than the long-term focused Siemens, but its market positions and lowly valuation justify a small position (1.5% of the Fund). Regular readers will not be surprised that our position in Siemens is nearly three times that at 4.3%.

Rail

The railway industry looks set for strong demand this next decade or two (Siemens is among the leaders!!) as congestion in cities, both in the rich and developing world, require new/expanded metro and regional passenger rail systems, while fuel prices and clogged roads suggest freight upgrades are also a priority. Due to non-participation by the Americans, it is very much a European and Japanese business in the rolling stock, systems, switching and safety area. And because standards, accreditation etc - not to mention promotion of national champions! - dictate contract awards as much as the actual product, it is more or less a European business (eg. the Chinese adoption of the European standard requires the Japanese to partner with Europeans to be in the running at all).

Alstom of France, Siemens and (Bombardier-owned) Adtranz of Germany are the integrated players; in addition a number of interesting component, signalling and safety systems businesses are listed around Europe. Specifically, the signalling/safety area looks most appealing to us, both valuation-wise and as the best play on railway spending without becoming involved in the civil contracting aspect of the business. We have been buying shares in one of these since meeting the management.

Other investment ideas

Elsewhere we found a very interesting prospect in the UK, where once again a London stock market-listed company has suffered appalling English management. This robust business has been damaged but not ruined, and a year ago those people were replaced by foreigners. The newcomers have dared to cease pandering to the short-term whims of The City, and have invested in the operations to satisfy the customers - and ultimately the shareholders - instead. With the shares near ten year lows, we have gingerly started buying.

And finally, we have made progress on a project discussed in the December 2005 report, namely to find a reasonably priced way to play the considerable opportunities available in the German savings industry.

OUTLOOK - STOCKS VERSUS STOCK MARKETS

Four or five new ideas (admittedly generated over months, not the fortnight of meetings!) indicates that we are finding undervalued shares to invest some of the Fund's cash. Indeed as we look at the stocks in the Fund, we see some good prospects over the coming years. Our concerns are over general market behaviour and sentiment - and as mentioned, the high absolute levels of profit - which still suggest that the "easy money" has been made. The German stock market did, after all, bottom below 2,200 on the DAX in March 2003, so that by its highs in May this year it had nearly ***tripled*** in three years. Other market indices have not been quite that dramatic, but many small and middle-sized companies all across Europe have enjoyed spectacular moves.

At the same time the bloated coffers of private equity funds, as well as the behaviour of several companies (eg. in the utility area and indeed in the steel area) replicating the leveraged-buy-out model, can hardly be associated with once-in-a-decade buying opportunities! Mass market European car companies - businesses which over time have struggled to make more than 3-5% operating profits on sales - now have widespread market following in their ambition to "save" (and keep) billions of euros in cost reductions. Thus they plan operating margins up around 9%, and this at a time when Toyota is just getting serious in Europe, and Hyundai is close behind. This apparent belief in the sustainability of "western prices, eastern costs" is one which makes us nervous of market levels.

The Platinum European Fund, as at 30 June 2006, is 86% long, and 13% short for a net 73% exposure to shares; the currency is around 32% in A$, 46% euro and the balance in Swiss francs, Scandinavian currencies and the Pound Sterling.

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 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.