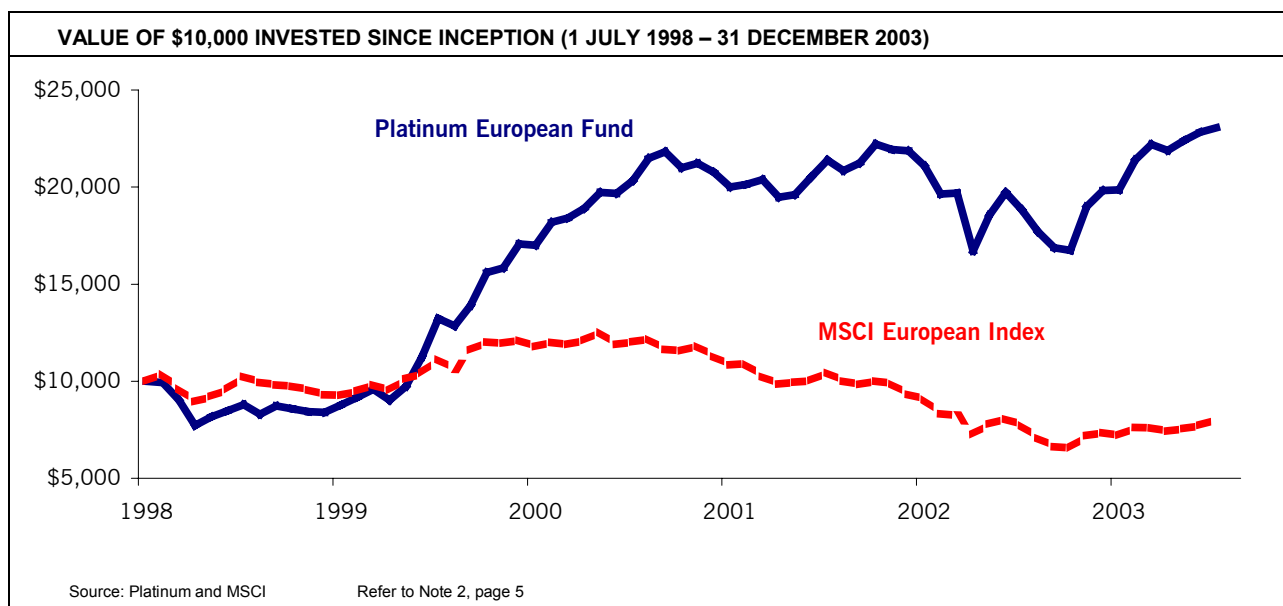


Platinum European Fund

Performance

REDEMPTION PRICE: \$1.7248



(As at 31/12/03)	Fund Size	Quarter	1 year	2 years (comp. pa)	3 years (comp. pa)	5 years (comp. pa)	Since Inception (comp. pa)
European Fund	\$124mn	5.37%	22.48%	4.28%	4.83%	21.27%	16.38%
MSCI* European Index		8.13%	3.54%	-12.35%	-12.58%	-4.78%	-3.90%

* Morgan Stanley Capital International Source: MSCI and Platinum Refer to Note 1, page 5



Markets higher with manufacturers leading a broad advance, despite strong euro

European stock markets moved up 11% in the quarter as enthusiasm for stronger economic growth overcame concerns about the impact of stronger European currencies (against the US\$ and by extension against many low labour cost countries). The strongest sectors were Steel (+28%), Manufacturing (+18%) and Machinery (+17%), and the participation of Computer Hardware/Software (+17%), Media (+13%), and even Tobacco (+14%) indicates the breadth of the advance. The Australian Dollar was 3% stronger vs the euro, so that the MSCI Europe index return measured in A\$ was 8% for the quarter. Over the calendar year, the index was 3.5% higher (with its 17% local currency gain all but erased by the A\$ strengthening over the period).

The Platinum European Fund advanced 5.4% over the period, as good performances from various German holdings (eg retailers, Adidas, Merck, Heidelberg Cement), French water utility Veolia, and

Danish trucker DSV were offset by the lower share prices of our “technology” investments - Infineon (semiconductors) and Medion (PCs). Our partial hedge into the Australian dollar afforded some offset to the rising currency. Over the year the Fund returned 22.5%, 19.0% ahead of the index.

The illusion of stability in the West

In the Western world, globalisation – by its downward impetus on the traditional (misleading) measures of inflation – allows irresponsible domestic political strategies to succeed. Where in decades past the inflationary consequences of debt funded consumption and property bubbles would generate an offsetting interest rate response, today in many countries rates are not moving up, and where the monetary authority has raised rates (eg Australia) politicians loudly compromise the central bank’s supposed “independence”. It is common sense that where debt fuelled consumption (US, Australia etc) threatens the future of the financial system, then interest rates should rise to reduce the damage. Inflation – whether in commodity prices, property, other assets, wages, or manufactured goods - are damaging because “illusory” price signals cause the

mis-allocation of resources. The currently popular measure of inflation (the CPI – over-influenced by the falling prices of many manufactured goods) suggests no immediate problem. But this should not be used as a fig-leaf to ignore reality. And the fact that higher interest rates would necessitate less wanton behaviour by many people in no way rescinds the economic logic; the reality is it encourages politicians to overlook their responsibility to the future and to pander to the indebted consumer.

Independent central banks, whose own politics it suits to encourage perceptions of their omnipotence, give the illusion of respectability to what is likely an economic calamity in the making. “Consumerism” (seemingly insatiable buying, despite growing evidence that more possessions don’t really please the individual and certainly not as much as they expect) should either collapse under its own emptiness, or be forced to shrink by the economic problems it has caused.

Thus the future may well see some of the following:

- The benefits of the independence of central banks will be questioned.
- The “wizard of Oz” trick of policy control will be revealed as the illusion it is (relative to the influence of international product, labour and capital markets).
- The paradox of all large economies wanting a “weak” currency will persist.
- “Globalisation” as it is currently unfolding will attract increasing domestic opposition, eventually leading the same self-serving politicians to respond (thus in fact increasing their power as the declining relevance of nation states relative to international companies reverses). The response will be dressed up under all sorts of guises, but will revolve around restricting trade, and reversing the loss of Western world jobs.
- Global growth will probably slow, but profits for many firms may well be higher, steadier, and more predictable.

It is with these sort of concerns in mind that we continue to search for sensible investments; in addition to the promising opportunities in Japan (and Asia more generally), we sense that much of continental Europe offers a more reliable environment than the “Anglo-Saxon” countries.

October company meetings in Europe – oil, transport, optical industry

We had meetings with 27 companies in Europe in late October visiting Germany, The Netherlands, France and England. With our expectation for continuing high oil prices in the coming years, we visited several European oil majors, and also the “oil services” companies who work for them. Transport is an obvious theme with the continuing translocation of manufacturing away from rich countries (and hence the need to move ever higher volumes of goods around). We have several investments along this theme and saw some of those companies as well as some competitors. The optical (ie corrective eyeglasses) retail and manufacturing industry is another interesting area for investment.

The oil majors, with the exception of Total of France, tend to be rather like second-rate mining operations in that they have generally failed to replenish their reserves and thus face ever greater exploration expense to maintain production. The oil giants tend to be exposed to the declining North American and North Sea fields. By contrast Total finds itself, helped by national champion status (it was allowed to buy Elf Aquitaine), in a strong position, with a good spread of activity from Russia to the deep water fields off the West African coast. Reserves are high and growing; production is increasing. This is well understood by observers, but the stock is not so far from being an interesting investment (largely because many stock market participants seem to regard oil declining below US\$20 as likely and sustainable – we disagree).

The actual oil service companies in Europe – from contractors like Technip, Saipem, and IHC Caland to seismic leader Geophysique – tend to be less profitable and carry more project risk than the powerful American players such as Schlumberger, Halliburton etc. This is not least due to the mature nature of the North American fields (production peaked thirty years ago) and thus the high degree of sophistication needed to maintain production. While some of these Europeans we visited are interesting plays on the increasing importance of deep-water fields, for example, their project (rather than technology) emphasis and implicit balance sheet risk discourages us from paying more than very modest multiples for the shares.

In the last couple of years the Fund has enjoyed strong returns from transport companies such as DSV (Denmark) and Stinnes of Germany (since

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY (% of assets)

Categories	Examples of Stocks	Dec 2003	Sep 2003
Miscellaneous Services	Deutsche Post, SGS Surveillance	17%	18%
Retail	Hornbach, Douglas	12%	11%
Capital Goods	Océ, Schindler, Siemens	11%	15%
Pharmaceutical/Biotechnology	Novozymes, Novartis	11%	10%
Chemicals/Materials	Linde, Merck KGaA	11%	8%
Tech/Media	Ericsson, Infineon Tech	8%	7%
Consumer	Henkel, Adidas	8%	7%
Financials	Credit Agricole, Alleanza	7%	9%

Source: Platinum

taken over by Deutsche Bahn). In addition, as we mentioned last quarter, we are building a position in transport giant Deutsche Post (which operates through DHL and Danzas). We were late to play the container shipping angle in the secretive AP-Moeller/Maersk group, but have a position in one of its best competitors, Hapag Lloyd, via our holding in TUI of Germany. On our recent trip we visited Nedlloyd, TUI, Deutsche Post (again) and another small trucker based in Paris. Overall it seems clear that where the trucking operations are providing a reliable, useful service to (loyal) customers, and thus pricing it for the service it confers rather than at its marginal cost, then profitability is good and quite steady. Eventually Deutsche Post should be able to exploit its scale and it will be a feared competitor even for focused trucking companies. On the container shipping side, for the first time in a while rates are quite high and the scheduled new capacity is unlikely to keep pace with demand growth. (The fact that major Korean shipyards are booked out with urgent demands for oil/gas tankers and bulk carriers as well means that this situation should persist for a while yet). Thus the companies are enjoying good and growing profitability, the unsuccessful attempts to collude through "conferences" etc in the last decade notwithstanding.

Our interest in eye glasses began with the slumping share price of German retailer Fielmann. This was a *short-sighted* stock market response to the German health care reform, which removes subsidies on corrective lenses from January 2004 (thus while the stores have been over-run with business in the last few months, the stock market anticipated a collapse in business and hence weak profits in the first part of 2004). Wider investigation of suppliers such as Essilor (France) and other retailers like Grandvision

(also based in France) ensued and we saw all these companies on our recent trip. The area is of interest, both in a retail and manufacturing sense, as technical improvements (progressive lenses, polycarbonate rather than glass materials, and protective coatings) increase the usefulness and price, and quicken the replacement cycle of glasses generally. This all conspires to increase sales and profits in the industry, so that share price set-backs are immediately worth investigating.

Outlook – better profitability prospects discounted, supply plentiful, reforms encouraging

A year ago we wrote that the contradiction of the so-called stability pact (governments forced into contractionary fiscal policy during a recession) and the confusion in Germany (illustrated at the time by Chancellor Schroeder's announcement of six new taxes in a few weeks) meant that crisis point had been reached and thus change was inevitable. It is a relief to be able to write, a year later, that the stability pact has been overridden, and that the German government has come to a deal (with the opposition who control the upper house of the parliament) which begins serious labour market and welfare reform. This news, combined with some tax cuts, has been welcomed by the market and should also bolster the steadily improving business and consumer confidence.

With this slight tailwind largely offset by the depredations of the ever cheapening US\$, however, valuations look fair to full rather than cheap. We note the continuing issuance of new equity by companies – both by those needing to refinance, and by opportunists taking advantage of good prices. On the other hand, more companies are starting to buy each other, and the prices paid are generally pretty

high. Among the largest in recent months was General Electric continuing its expansion in the medical arena (we described twelve months ago its acquisition of anaesthesia monitoring specialist Instrumentarium of Finland) when it acquired Amersham (UK). This company, which emerged from the British government's nuclear research activities (in fact it was the Thatcher government's first privatisation, in 1982) grew steadily and in 1997 made the large acquisitions of Nycomed (x-ray contrast media) of Norway and the very interesting biotechnology unit from Pharmacia as the Swedish company changed hands. The most obvious link with GE is the X-Ray, CT and MRI scanning hardware that the American giant sells; the other areas of Amersham also show considerable promise. At an earnings multiple in excess of 30 times, however, GE is paying a full price.

In recent months the changes to the portfolio have tended to involve scaling back a few investments where price increases have made the holdings larger than required – notably inspection/testing giant *SGS* of Switzerland (where the re-energising of the company under a new CEO has combined with

excitement over their expanding role in testing and verifying Asian production for Western markets) and *Merck* of Germany (whose first major cancer-fighting biologic has received approval in Switzerland, and whose LCD chemical mixtures are selling as fast as they can make them to supply the LCD screen boom). New holdings we have added in the quarter include *Schering* of Germany, and specialty chemical maker *Ciba* of Switzerland. The Platinum European Fund is currently 84% long and 9% short for a net exposure of 75% in European equities.

A year ago also we noted that the A\$ was at its cheapest since flotation against the Swiss franc (and obviously against the four year old euro), and hence our maintenance of a 60% hedged position into the A\$. Over the year, the A\$, apart from its rapid rise vs the weak US\$, has also improved by up to 15% vs the Europeans. With this increase the A\$ is at the average level of the last ten years vs the Europeans, and with the debt threats alluded to above facing Australia, we have cut the position back to 30% A\$ and 70% exposed to various European currencies (excluding the pound sterling).

Toby Harrop

Portfolio Manager

Notes

1. The returns represent the combined income and capital return for the specified period. They have been calculated using withdrawal prices, after taking into account management fees (excluding any performance fees), pre-tax, and assuming reinvestment of distributions. The returns shown represent past returns of the Fund only. 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, returns can be negative (particularly in the short-term).
2. The investment returns depicted in the graphs are cumulative based on A\$10,000 invested in the Funds since inception and relative to their Index (in A\$) as per below:

Platinum European Fund:

Inception 1 July 1998, MSCI Europe Accumulation Net Return Index in A\$

The investment return in the Funds is calculated using withdrawal prices, after taking into account management fees (excluding performance fees), pre-tax and assuming 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 securities adviser) your particular investment needs, objectives and financial circumstances. You should refer to the PDS or IS (whichever applicable) when deciding to acquire, or continue to hold, units in the Funds.

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