# PLATINUM INTERNATIONAL BRANDS FUND

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## PERFORMANCE AND CHANGES TO THE PORTFOLIO

The Fund achieved a return of 11.7% for the quarter, contributing to a return of 41.6% for the year. By comparison, the MSCI World Index returned 10.1% and 29.9% for the quarter and year respectively.

The Fund has continued to benefit from its exposure to alcohol and tobacco companies in India with exceptional increases in the stock prices of those holdings, both for the quarter and since our original purchase. The Fund has enjoyed increases of up to ten fold in some of these stocks. Last quarter, we highlighted in our commentary an outstanding gain from our holding on Bata India (footwear); we decided to realise this gain in the quarter.

The investments in cosmetic companies especially our French holdings, L'Oreal and Clarins, contributed with increases of 10% to 15% in the quarter. We had been adding to both of these companies particularly Clarins, whose share price was languishing somewhat.

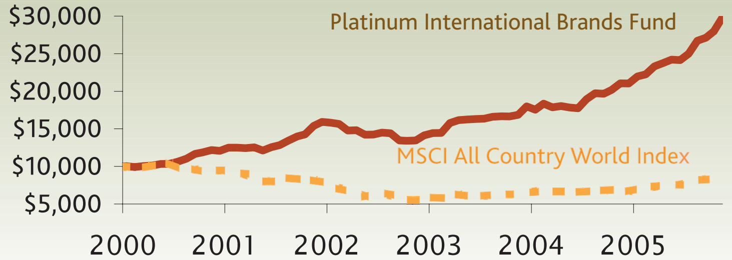
The Fund's exposure to Europe and particularly France has increased in the quarter with additions to our investments in Pernod Ricard and Remy Cointreau. The Fund's largest investments, Clarins, Carrefour, Pernod Ricard along with L'Oreal and Remy Cointreau, mathematically determine that the Fund has a large European and specifically a large French weighting. Our focus and underpinning of the investment case for these companies clearly extends beyond the borders of France and coincidentally exemplifies an investment approach that eschews the influences of benchmarks and their weightings.

**DISPOSITION OF ASSETS**

| REGION | MAR 2006 | DEC 2005 |
|---|---|---|
| EUROPE | 34% | 28% |
| OTHER ASIA (INCL KOREA) | 23% | 26% |
| JAPAN | 18% | 24% |
| NORTH AMERICA | 5% | 5% |
| CASH | 20% | 17% |
| SHORTS | 4% | 8% |

Source: Platinum

**VALUE OF $10,000 INVESTED SINCE INCEPTION**
18 MAY 2000 TO 31 MARCH 2006




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

We noted last quarter that we had benefited from our investments in Japanese regional banks and electronics in Korea.  This quarter, those stocks detracted from performance with stock prices that were flat or declined.  As a consequence and due to some selling, the Fund's investments in Japan have declined proportionately from 24% to 18%.

The Performance of the Fund in the quarter has also benefited from the decline in the A$, especially against the euro.

## COMMENTARY

The purchase by L'Oreal of the UK cosmetic chain Body Shop appears to be incongruous with their operations as a supplier rather than a competitor to cosmetic retailers.  It has also drawn forth a predictable reaction from consumers and activists highlighting the apparently differing ethical positions of these companies, along with L'Oreal's ownership by Nestlé (also renowned for being boycotted).  We don't believe that this acquisition by L'Oreal was decided upon purely by the compelling financial acuity of their investment bankers, nor by a disregard of the persona of the brand.  Perhaps though, L'Oreal was attracted to the opportunity for developing alternate distribution channels, direct retail and direct selling, an interesting alternative in some developing markets where a cosmetic retail industry is yet to be widely established.

It may also be that L'Oreal saw advantage in expanding the "natural" segment of their product portfolio.  A visit to a Body Shop store might also surprise many on the extent of the range of products and perhaps the potential that L'Oreal envisions.  Colgate recently purchased 'Tom's of Maine', which offers "natural" toothpaste packaged in an environmentally friendly way, further highlighting the segment.  Nonetheless, acquisition interest has seen shares in companies such as Clarins perform strongly towards the end of the quarter.

Along with cosmetics, alcoholic beverage companies are an important component of the Fund (some 15%), dominated by spirits products rather than beer or wine.  We do encourage (even relish!), participation with the products and, albeit in a very modest way, support the returns of those companies where we have an ownership interest.

Whilst many readers may not have had the opportunity to travel to, say India, and experience products such as Royal Stag whisky, the key brands of many of our companies are readily available, such as Chivas, Ballantines or Martell. Similarly, products from L'Oreal and Clarins feature on our shopping list as we contemplate whether the corporate rhetoric is reflected in the advertising and performance of the brand and product.  Our ongoing discussion of the Fund's investments should always provide a variety of opportunities for your participation and hopefully enjoyment, from cosmetics and hair care through to chocolate (Lindt and Spruengli) or even autos (Toyota).

Diageo, London listed and the largest of the spirits companies, describes the US market as their most important developing market.  In contrast, many management teams from a variety of industries have found it expeditious to highlight their company's exposure to the '"BRICs" (the fast growing economies of Brazil, Russia, India and China) rather than the US.

Diageo's performance in the US certainly determines the basis of their overall financial performance; the opportunities that they see for sustained brand building and increased consumption in that country are noteworthy for them and the industry. We might also observe that the desire by Diageo's management to focus the investment community away from their emerging market (BRICs) operations may also relate, in part, to the need for them to address a host of historic and restrictive distribution arrangements in those regions.

However, even Diageo supports the view that their opportunity in China is compelling, albeit challenging. Pernod Ricard has had good success in many emerging markets which has more than compensated for declining consumption in France of their Anise products and an overall difficult European market. Following Pernod's acquisition of Allied Domecq and a reorganisation of distributors, they equally have the opportunity provided by a US consumer who appears to be increasing consumption of spirits.

We have found that many consumer companies have a high dependence on a mature market often with the concern or overhang of slowing consumption. The potential for the spirit companies to see simultaneous growth from the US and the emerging markets is unusual and underpins our confidence in their prospects.

Any discussion of 'China' typically raises a host of preconceived perceptions and notions. As Kerr and Andrew allude to in their report on their recent trip to China, the potential for branded goods companies and the Brands Fund to participate is readily evident. The counter argument, widely held, is that the proportion of results currently arising from China is too small to be of relevance. It is our observation that the ability of companies to make rapid progress is more relevant.

For example, we could focus on the 28% of Pernod Ricard that is their western European business, or the 22% in the US. Meanwhile they have built a business in China that represents 9% of the company and is growing at a pace that might suggest a commensurate boom in Berocca sales. Russia at 5%, Eastern Europe 12%, Latin America 6% and India at 4%, demonstrate a global business with ample exposure to opportunity.

The cosmetic companies such as Clarins generally have very low exposure to China where the 'BRICs and emerging markets are little more than 5% of the business. There is a realisation happening amongst many companies that competing for a market share point in say the US market is only part of the day's work. Clarins management in India recently expressed the view that Clarins should have an outlet in each Indian city within a year whereas, after a presence in India for five years, they currently have only two outlets in Mumbai and Bangalore.

For many years we have heard the argument in respect of luxury goods brands, such as Louis Vuitton, that the destination market is of more relevance to their results than the home markets of their consumers. We have endured regular analysis of the number of Japanese tourists to Hawaii and of the impact on duty free sales of their travel schedules. We don't doubt in years to come that we will see equally determined analysis of tourism numbers both to and from China. We would prefer to consider the potential before any rationalisation of quarterly changes in sales starts to include analysis of tourist movements from Asian countries other than Japan.

# OUTLOOK

Comments on the outlook for our investments and performance of the Fund might necessarily involve discussion surrounding long standing concerns on the state of indebtedness of the consumer in mature markets such as the US, or even of the sustained miserable outlook of consumers in several of the European markets. Similarly concerns regarding the impact on valuations of the excess of liquidity could also be highlighted against a backdrop of rising interest rates. These are all widely discussed issues and although also relevant to the Fund don't require further elaboration. Of more specific interest are the opportunities for some of our larger holdings.

A discussion of the scale and growth in China is also widely appreciated. Where we seek to differ is that the prospects for any individual company may be substantially under-appreciated should we continue to see an increasingly affluent Chinese consumer. The urban Chinese consumers are showing every sign of being enamoured with foreign brands especially in rewarding or reinforcing a sense of achievement and status. Foreign branded apparel, sportswear, spirits, cosmetics and a host of other categories, appear to offer a robust long-term opportunity. The equity markets reflect valuations for these companies that dwell on concerns of slow or slowing markets in Europe and the US, and whilst not outrageously cheap we do see good value in selected companies.

## 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

(Note. 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.

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