PLATINUM INTERNATIONAL HEALTH CARE FUND

Simon Trevett
Portfolio Manager

PERFORMANCE

The Platinum International Health Care Fund had a positive quarter, up 7%. For the full year, however, it has fallen in value by 12%.

We commented in the last quarter's report that the specific event contributing to the fall in share prices across the biotechnology sector was the unexpected withdrawal of the drug Tysabri (for multiple sclerosis) as a consequence of unanticipated side effects. Coming so soon after the loss of the pain medications (Cox-2 inhibitors, such as Vioxx from Merck also due to side effects) and the very public debate about the safety of many of the commonly taken pain drugs, a significant and sustained reaction by all participants in the industry, including the regulators, has ensued.

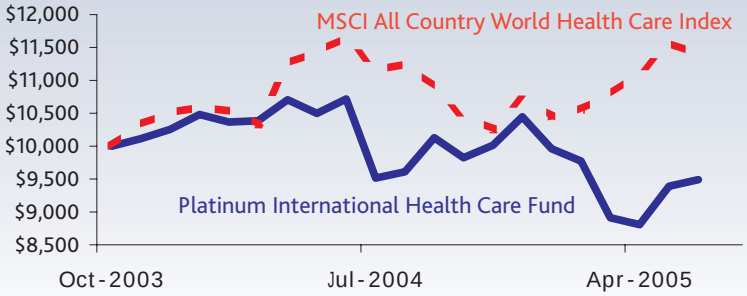
We hesitate to use the word unprecedented; there have been some very public withdrawals of drugs with severe side effects in the past. Indeed the current regulatory structures are derived in large part by the devastating side effects of the drug Thalidomide and the laws that were passed as a consequence. Ironically, Thalidomide has subsequently been approved for use in some specific cancers and its derivatives are proving to be useful treatments. Perhaps what is unprecedented is that the promise of Tysabri as a targeted therapy has brought into question the extent of our knowledge and experience with these style of drugs and the availability of the tools to evaluate them.

DISPOSITION OF ASSETS

REGION	JUN 2005	MAR 2005
NORTH AMERICA	63%	57%
EUROPE	25%	26%
JAPAN	2%	2%
OTHER ASIA (INCL KOREA)	3%	2%
CASH	7%	13%
SHORTS	1%	0%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
10 NOVEMBER 2003 TO 30 JUNE 2005



Source: Platinum and Factset. Refer to Note 5.

Our performance has suffered by our exposure to the biotechnology sector and some specific failures of individual development programs. We would remind investors that there is likely to be volatility in the Fund's performance, especially on a quarterly basis as the timing of any specific news event can have a significant effect on any of the drug development companies, from the largest pharmaceutical company to the smallest of our biotechnology holdings.

More generally, we would argue strongly that over the past twelve months there has been good progress in targeted therapies, not only for oncology but also for disease indications such as type-2 diabetes, virology (hepatitis), ophthalmology and CNS-related diseases such as sleeping disorders. New treatment approaches are moving beyond proof-of-concept studies in humans and overall the pipelines of many companies are making good progress. The relationship between pharmaceutical and biotech companies is strong, and licensing and even acquisition, has been a common theme throughout the year. Our discussions with the companies indicate that the business development teams of most industry participants are very active and that we will continue to see the relationships develop between those with strong balance sheets and those with interesting programs. Pfizer, for example, under recent changes to US tax law is repatriating nearly $37 billion (with a 5% tax charge) of foreign earnings most of which we anticipate will directly or indirectly be used for in-licensing or acquiring development programs.

CHANGES TO THE PORTFOLIO

We reduced our investments in US biotechnology companies. We have also taken a short position in Zimmer Holdings, an orthopaedic implant company with a market leading business in hip and knee replacements. The company, along with the industry has enjoyed an extended period of outstanding growth built on rising volumes, increasing prices and the development of extensive sales, marketing and training practices that have contributed to the preferential selection of the company's products by surgeons. The hospitals and regulators are taking a close look at the business practices and the relationships between surgeons, hospitals and the supplier. We suspect that with the company trading towards the high end of its historic valuation range and some challenges in sustaining historic growth rates, along with the business practice reviews, that we might see some pressure on the valuation.

COMMENTARY

The industry has been operating under the umbrella of some well publicised and debated issues, the high price of drugs in the US market, patent expiries and an abundance of litigation. The large pharmaceutical companies are also acutely aware that they have failed to produce the level of research success necessary to sustain them through the major patent expirations, even though the patent protected nature of excess earnings and cash flow should have provided for the new product flow. A loss of public and regulatory confidence has clearly been exacerbated by the recent safety issues and the impact and influence that this is having on the companies is giving us some very strong signals that significant changes are underway.

We will likely continue to see increased pressure applied to the companies and ongoing negative press as the pendulum on the balance between

efficacy and safety swings back across to an almost obsessive level of focus on safety and the communication of the risks of taking drugs. It might be noted that with the recent drug withdrawals that there are patients that benefited from the drugs and would like to have continued treatment even with an understanding of the risks involved. If only we could reliably identify the patients to include or exclude. Technology is moving towards "targeted" and "personalised" medicine and has strongly influenced today's approach to drug discovery and development.

The R&D engines can be differentiated not so much by the size of the pipeline or speed a compound moves through development, nor even by the determination of a risk adjusted discounted cash flow on each of the pipeline products but perhaps more by looking at the different approaches being taken by each of the major companies. Our discussion with companies about their particular challenges has offered us a glimpse into the organisational and many other changes to their research and development approaches that have happened over recent years. Despite the significant investments in a range of technologies, with impressive capabilities such as 'high throughput screening', the process of research and development is not that of a standardised and industrialised process. There are many decision points at times of imperfect information, along with possibly competing or conflicting pressures from the perspectives of regulators, scientists, marketeers, or the company's board.

In trying to re-introduce the innovative spirit and achieve product success each of the companies have chosen different structures. We do not need to determine whether any one is superior to another, chances are that many of the different approaches will succeed. It is interesting to us though that some of the companies are much further advanced in their transformation and development than others. The benefit of hindsight shows intriguing progress as the companies systematically rebuild depleted franchises through external sourcing whilst also rebuilding their internal capabilities (Novartis' construction projects have been impressive!).

Traditionally basic research, such as studying the development of a disease and understanding the underlying molecular mechanism was left to academic institutions to solve, while pharmaceutical companies focused on screening for drug compounds, clinical development and subsequently selling the drug. Today the landscape has changed; traditional drug discovery relies more and more on in-depth knowledge of molecular and biological process through genomics and proteomics. Academics and biotechnology companies (many are founded out of the universities) have established a strong focus on translational medicine while pharmaceutical companies have strengthened their basic research knowledge. In particular the business development departments at pharmaceutical companies have been strengthened and the networks built through these alliance activities are an increasingly important part of drug development across the entire industry.

The licensing environment has become competitive and more advanced products come at a price, reflecting the value of information. Furthermore, there is no guarantee the collaborations will be successful as managing these activities can be challenging. Sometimes it is easier and cheaper long term to acquire a company or project. The current valuation of many biotechs along with the strength in the balance sheets of the larger companies should see a continued appetite for alliances and acquisitions, all aimed at strengthening pipelines.

Additionally, some pharmaceutical companies have taken a more vigorous approach and modified their own R&D engine. One example is Novartis who has carefully restructured its early stage research and development approach. A new research site was opened in Boston, the Basel site is significantly expanded and academic

leaders have been successfully recruited. The idea has been to focus on detailed analysis of a disease, testing a compound in a disease model with well defined endpoints (efficacy and safety) and combining it all with a very healthy and strong academic network. This has not necessarily been easy to achieve with many obstacles to overcome ranging from cultural through to even such basic ones such as location.

Besides the industry having accomplished changes, the regulatory agencies also have to keep up-to-date with the latest technologies as well as trial designs. Interestingly the FDA in the US has been very pro-active and some even say forced the issue upon some companies.

Finally, there is also the question of financial flexibility, where Pfizer for example has significant capacity through the repatriation of funds, together with a substantial annual cash flow to create opportunities for itself. The valuation (at a PE of 12-13x), consistent with many of the companies in the sector, reflects in part the concerns of litigation and loss of patent protection on their major product Lipitor. The low PEs of the big pharmaceutical companies anticipate that the earnings are not sustainable and that on the assumption of loss of pricing power and limited new product flow, the PEs are potentially significantly higher. Our travels and discussion across the industry has given us some confidence that there is good progress being made on advancing and replenishing the industry's product portfolio.

OUTLOOK

How product licensing, the traditional in-house approach, acquisitions or a combination of all of the above will succeed remains to be determined. Each has their advantages and disadvantages and it will be important how each of the different companies blend the many influences including academic, scientific, regulatory and technological with their respective corporate cultures and balance sheets. We believe that these changes are providing us with interesting investment opportunities against the backdrop of the industry's woes and compressed valuations.

Specifically we are attracted to the opportunities with the large pharmaceutical companies across all the regions. We are also increasing our focus on the providers of the tools and technologies that are being adopted to meet the rising demands for better characterisation of a drug's efficacy and safety. In keeping with our longer term theme of matching a drug's capabilities with a patient's individual requirements we will continue to seek to add to our investments in the diagnostic arena.

Simon Trevett and Bianca Elzinger

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.