PLATINUM INTERNATIONAL HEALTH CARE FUND

Simon Trevett
Portfolio Manager

PERFORMANCE

It was an eventful quarter with influences on many of our holdings ranging from the US election through to the many newspaper headlines on drug safety, mostly triggered by the withdrawal of the popularly prescribed pain drug 'Vioxx' by Merck Inc. In the lead up to the US election, issues such as the price of drugs, rising health care costs as a proportion of GDP, and the potential threat of allowing drugs to be sourced from subsidised or price controlled markets (reimportation), added to an already high degree of uncertainty as to the future earnings potential of the major pharmaceutical companies.

As it has turned out, the US election result is most likely a minor positive for the industry. In the near term the US government does not look as though it will seek aggressive pricing constraints on the industry nor does the issue of reimportation of drugs seem to be making any progress, with recent government reports suggesting that the risks outweigh the benefits. They also make the point that the natural progression of drugs moving from patent protected to generic availability will provide a more relevant reduction in pricing.

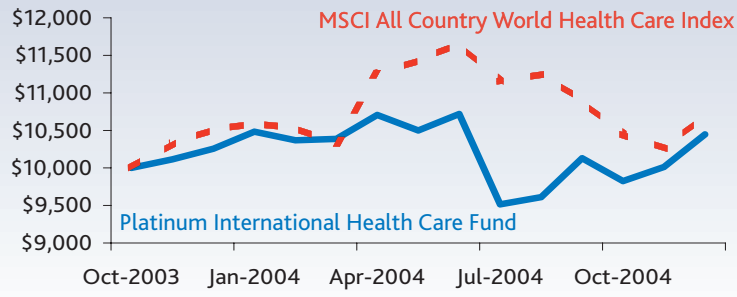
However, there is no doubt that the pressures remain on the industry to find new treatment options which are efficacious, safe and cost effective. How this unfolds will be debated endlessly and subject to as many extraneous influences as relevant ones. We are encouraged that there does seem to be sufficient moving parts to the debate to ensure opaqueness as to the potential of the industry, thereby providing some interesting investment opportunities. This can be illustrated with a look at the current pricing of the major participants' shares.

DISPOSITION OF ASSETS

REGION	DEC 2004	SEP 2004
NORTH AMERICA	59%	58%
EUROPE	22%	26%
JAPAN	1%	2%
OTHER ASIA (INCL KOREA)	2%	2%
CASH	16%	12%
SHORTS	0%	0%
NET INVESTED	84%	88%

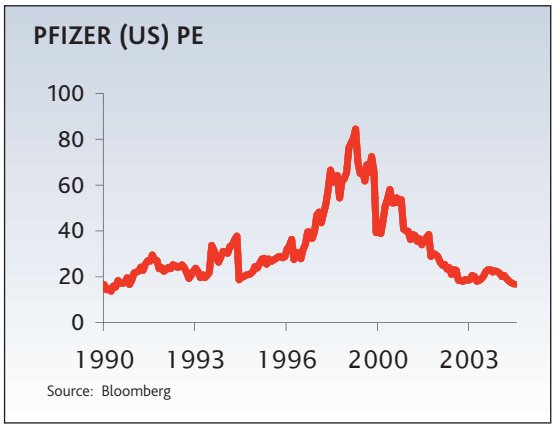
Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
10 NOVEMBER 2003 TO 31 DECEMBER 2004



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

Using Pfizer, the largest pharmaceutical company as an example, we can see how the pricing of the stock has fallen dramatically from its heyday valuation with a trailing P/E of over 80 to currently less than a quarter of that.



Similarly, across the industry we are seeing valuations that have fallen to levels that imply both historically low growth rates and a much higher risk profile. There is no doubt that both are valid concerns and that the stocks are reacting accordingly, however with sentiment towards the sector also apparently at a low ebb we suspect that much of the industry's woes are already reflected in the current share prices. Many of the valuation metrics, including cash flow measures and dividend yield, portray a similar story. There seems to be little credit being attributed to the research pipelines of the industry, partly because of the early development status of many of the more interesting drugs and partly due to the increased risk of developing drugs that need to meet higher hurdles; more precise in their function and with a superior safety profile.

The portfolio achieved a return of 3.1% for the quarter compared to the MSCI World Health Care Index of -1.7%. Within that we saw volatility particularly in our biotechnology holdings with performances ranging from -30% to +80% driven at times by apparently minor news or rumour in a market that seemed prone to some exaggerated movements.

CHANGES TO THE PORTFOLIO

This quarter we travelled to the West Coast of the US and Canada, following which we added several biotechnology companies to the portfolio as well as adding to some existing holdings. We also sold three of our investments following what we assessed to be a change of circumstances at the respective companies. The structure of the Fund has not changed significantly except perhaps for a modest increase in weighting in Canada based on the addition of some new investments. We have also been adding to our positions in Merck and Pfizer.

COMMENTARY

The sudden withdrawal of Merck's drug Vioxx shocked many, from patients through to the industry regulators. Since that date, at the end of September, much has been written in the press as we moved from sensational reporting to more thoughtful commentary. Those in possession of a retrospectrascope have had much to say about their foresight on the issues. Nonetheless the episode has brought to the fore many inherent concerns within the industry and portrayed in stark relief the absurdity of many of the conflicts of interests.

By way of a brief background for those fortunate enough not to be familiar with the drugs involved, a new class of drugs (so called Cox-2 inhibitors) was developed for the relief of pain and associated inflammation, particularly in patients with rheumatoid arthritis and osteoarthritis. The class was promoted to offer

pain relief while lacking the harmful effects on the gastrointestinal systems (ulcers and bleeding) that patients can suffer when taking the older medications. Given that many patients suffer from these debilitating diseases and alternative therapies were and still are limited, this new class of drugs saw rapid adoption to become multi-billion dollar products. The leading two drugs were Vioxx from Merck and Celebrex from Pfizer. In the past quarter both drugs, Vioxx more so than Celebrex, have been associated with an adverse effect on the cardiovascular system, potentially resulting in heart attack or stroke. These events have raised questions about having potentially harmful drugs on the market and highlighted more generally many of the issues faced by companies and regulatory agencies when developing and assessing new drugs.

There are many competing interests at play when determining the future of any drug; the risk/reward profile from the patients' perspective in taking any treatment needs to be weighed, the commercial conflicts inherent in a drug company's desire to deliver financial results, the purpose and capabilities of the FDA to make appropriately balanced decisions whilst being funded in part by the industry, and not least the impact of an opportunistic legal system.

Also at play is the state of technology that allows researchers to gain more detailed understanding about the mechanism of a drug. We are still at a very early stage in being able to understand from a biology or chemistry perspective exactly how these drugs interact with the complexity and variability within each of us; in particular what are the positive effects (efficacy) and the potentially negative ones (side effects) of a drug. Clinical trials are essentially only statistical samples, providing the drug companies and the regulators with a less than perfect set of data on which to determine a drug's approved uses and restrictions.

As companies identify additional disease indications for already approved drugs thereby extending the drug's patented lifespan, more and more data is accumulated which may result in surprises. This commercial desire to extend the uses of Vioxx and Celebrex into additional indications (prevention of colon polyps that leads to cancer) saw new additional clinical trials being performed that revealed the increased risk of cardiovascular events. In Merck's case, the new scientific data and the potential size of the commercial risk (litigation), relative to the company's size, resulted in an immediate withdrawal of the drug from the market. Many write that Merck's reaction was also the result of prior suspicions and their knowledge from earlier trials that the drug did have such a risk profile. The courts may shed some further light on this over the years. We have studied the significant changes underway at Merck and have been increasing our investment based on an assessment of their potential to develop their pipeline whilst being able to manage the litigation risks.

Pfizer's Celebrex has not shown the same degree of risk as Merck's Vioxx and the scientific rationale for this differential safety profile is a matter of some debate. Chemically the molecules differ and there is a possibility that their affinity to the drug target (Cox-2) also varies. Whether it is a matter of degree (sufficiently high dose over sufficient time) before we see the same outcomes remains to be seen. In the meantime, Celebrex remains on the market albeit with lower sales, as we await the many deliberations as to this drug's future. Also worthy of comment is that Pfizer's size perhaps affords more options when making their decisions; whilst they currently defend the utility and safety of their drug they also have the capacity, more so than Merck, of absorbing any financial consequences of litigation.

As science progresses both in biologic understanding and in the tools and techniques available to scientists we should ultimately be able to better match a drug with an individual's personal profile, which might have allowed those that benefited greatly from Vioxx to have continued with their treatment. More likely, in

our view, is that we will see compounds that are better designed with more knowledge of how they work along with an ability to identify those patients who will achieve the best outcome. It is unrealistic though to expect that drugs will have no penalty. It will always be a subjective risk reward assessment that will be performed balancing the many competing factors from medical to economic.

This particular issue of drug safety in approved drugs is not an isolated event and we have seen the reaction by other pharmaceutical companies to remind, highlight and reinforce the adverse effects of a number of drugs currently on the market. Cynically we could view this as an exercise in managing the legal system. We have yet to see obvious changes at the FDA or in the regulatory processes around the world but the assumption must be that greater emphasis on patient safety will eventually lead to an increase in the costs of developing drugs, especially those where the benefits are perhaps marginal. Whether we have seen the pendulum swing far enough against the drug companies is unknown, likely more adverse press on the side effects of significant drugs will ensue before we start seeing some interest in highlighting the benefits conferred and the potential for science and medicine to address the increasingly unmet needs of many current and prospective patients.

OUTLOOK

We are encouraged to add to our invested position believing that particularly the valuations of the large pharmaceutical companies and the adverse market sentiment support this, albeit we are cognisant (especially in the US) that perhaps relative performance may be better than absolute and that the market may need some extraneous encouragement before embracing the sector again.

The next quarter promises to be just as eventful as we head towards one of the most significant meetings of the year for the biotechnology companies. We would also expect to see a number of trial results impact our holdings and the level of deals (collaborations, licensing, mergers and acquisitions) across the industry looks set to continue. In this past quarter, Johnson & Johnson made a US$25 billion takeover bid for Guidant (a medical device company providing stents and pacemakers) and over the course of the next year we expect to see the full range of acquisitions across the industry.

The biotechnology companies will continue to benefit (as should their shareholders) from the maturing of their development programs and the continued hunger by the large companies to feed their pipelines as the next big wave of marketed drugs move off patent. We will continue to seek investment ideas that play to this theme. We are also encouraged to continue to pursue the theme of personalised medicine, by way of the tools that may assist in predicting a patients' response to a drug or those tools and services used in the research and development processes.

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.