PLATINUM INTERNATIONAL TECHNOLOGY FUND

Alex Barbi
Portfolio Manager

PERFORMANCE

During the quarter the Fund rose 3.1% compared to an increase of 6.3% in the MSCI World Information Technology Index (in A$ terms) and a 8.9% increase in the MSCI Telecommunications Index (A$). The "tech-heavy" Nasdaq Composite Index rose 4% (in US$) or 3.4% in A$ terms.

Over the last twelve months the Fund rose by 21.1%, outperforming both the IT Index (+10.8%) and the Telecom Index (+15.0%).

The Fund had another solid quarter with strong 20% plus performance from our large capitalisation US stocks such as Oracle, Microsoft, Sun Microsystems and Cisco. A good recovery in our Chinese holdings, China Mobile and ZTE, also added to performance.

On the negative side we had a minor setback as our Japanese holdings collectively detracted from the Fund's performance. Additionally, the Fund was negatively impacted by a weakening of the Japanese yen against the Australian dollar (-3.7%).

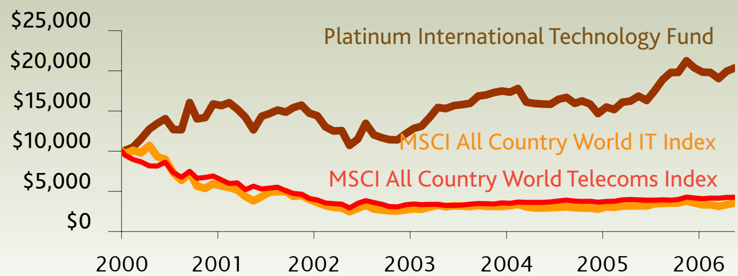
At the time of writing, the financial press is celebrating the Dow Jones Industrial Average eventually reaching all time highs (put it differently, it took the DJIA more than six and a half years to recover the level reached on 14 January 2000). While we tend to view these euphoric moments with detachment, wary of putting too much significance on a 30 stock index, we note that the Nasdaq Index is still 55.5% below its all time high recorded on 10 March 2000. For comparative purposes the Platinum International Technology Fund is cumulatively up 104% since its inception on 18 May 2000.

DISPOSITION OF ASSETS

REGION	SEP 2006	JUN 2006
NORTH AMERICA	24%	14%
OTHER ASIA (INCL KOREA)	23%	22%
JAPAN	17%	16%
EUROPE	14%	12%
CASH	22%	36%
SHORTS	3%	0%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
18 MAY 2000 TO 30 SEPTEMBER 2006



Source: Platinum and Factset. Refer to Note 2, page 6.

CHANGES TO THE PORTFOLIO

As we indicated in our June quarterly report, we had started reinvesting the Fund's cash and its total liquid position is now down to 22% compared to the high 36% level reached at June end. Our exposure to North American equity is now at 24%, the highest since September 2005, reflecting our assessment that valuations and growth prospects in some US tech stocks are now more attractive.

COMMENTARY

Technology Leveraged Buyouts (LBOs)

While we have previously commented on LBOs (see Kerr's Platinum International Fund report in December 2005), we think it is worth reviewing some of this quarter's deals as the "Private Equity Fever" is reaching unprecedented levels.

What is a LBO?

A leveraged buyout is a debt-financed transaction generally used to take a company from the public market back to the private domain. Over the last few years, LBOs have been mostly arranged by private equity firms, specialised in investing with the participation of existing management teams to maintain business continuity and to achieve superior performance driven by executive incentive schemes. These acquisitions are generally executed with a large level of debt relative to equity and for this reason they tend to incur high interest expenses (high-yield or junk bonds). Private equity firms make a profit by "extracting value" from their prey. That means cost cutting, selling assets, divesting divisions and ultimately recovering (and multiplying) their initial investments by either selling to another firm, paying out large dividends or re-listing the company again.

Historically LBOs have targeted stable businesses, with predictable sales and cash flows. (Stability of free cash flow is the prerequisite of a sustainable debt repayment plan.) Until last month, the largest LBO in history was the $31.3bn takeover of RJR Nabisco by Kohlberg, Kravis, Roberts and Co (KKR), the most prominent LBO firm of the last few decades. In fact RJR Nabisco was the textbook target for an LBO, with relatively predictable businesses (food and tobacco) and slow but solid sales and cash flow growth.

This quarter the private equity frenzy reached new peaks. In July the RJR Nabisco historic record was topped by the KKR (again) $32bn takeover of Health Care Of America (HCA), a hospital and health care services group. A few weeks later KKR decided to acquire a 80% stake in Philips semiconductors division for $3.4bn in cash. In September, Freescale Semiconductor, the former Motorola's semiconductor business, was acquired for $17.6bn in the largest technology LBO of all time led by the Blackstone Group.

Freescale Semiconductor is the ninth-largest semiconductor company globally. It provides embedded processing and connectivity products to the automotive, networking, wireless communications, and industrial markets. Freescale had no debt on its balance sheet when the bidders spotted it as a potential target. As part of the deal, Freescale will borrow up to $10.5bn! We can easily predict some of this newly raised money will be quickly channelled into the pockets of its new private shareholders in the form of one-off dividends.

What is going on? Why suddenly is there an appetite for highly leveraged acquisitions of technology companies with their highly cyclical and often money losing businesses? Technology, almost by its nature, requires heavy R&D expenditure and onerous capex. How can a management team focused on cost cutting and short-term debt repayment deliver long-term results in such a competitive industry?

It would be foolhardy for us to dismiss the various private equity transactions in the semiconductor industry as pure financial engineering, but finance plays an important part. Surely financial market conditions are facilitating the party. Borrowing spreads for high-yield funding are currently at around 200 basis points (bps) above investment grade, down from 300 bps in 2003. Compare this abundance of capital with the equivalent rates of the mid-80s when deals were done at 350-600 bps spreads.

As Analog Devices chief executive Jerald Fishman suggested in an interview with online magazine EETimes.com, while going private has its benefits in managing a company, it's not necessarily a panacea. *"Your boss changes,"* Fishman said. *"In one sense it's public stockholders (and quarterly earnings targets). On the other end, it's private equity guys. It's easier in that you are out of the spotlight. On the other hand, you have a pile of debt you have to pay back every month. You never control your own destiny".*

(Soon after the Freescale deal, Analog Devices was quickly identified by the stockbroking community as a potential LBO target, with its "reasonable" $10bn market capitalisation and a $2.2bn net cash position).

In fact Fishman also believes that: *"When you start looking at $3-4bn to put up a fab (factory) and you look at the companies who can put up the scale in the US to be able to absorb that kind of investment - which in five years turns mostly obsolete - it's a very short list. As more chip makers go private, the pressure to reduce costs and leverage a world-class foundry infrastructure will mount".*

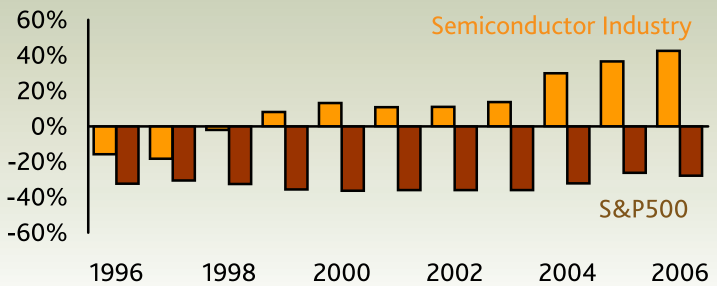
In fact the semiconductor industry is undergoing a profound transformation.

On one hand the rate of growth is slowing down somewhat and on the other, its cash generation is tremendous. The balance sheets of semiconductor manufacturers have dramatically changed over the last decade and many companies are now seriously overcapitalised (see chart below where Total Capital = Net Debt + Shareholders Equity + Minorities).

Cutting-edge fabs cost a lot of money and break-even points are generally achieved for a level of sales twice the capital cost. Moreover there are not that many large new market opportunities available. For companies like Freescale or Philips Semiconductor, without strong positions in specific markets, the dilemma is - to invest or not to invest?

This is a difficult question to answer but it was probably what attracted the "clever" private equity buyers most. Under new ownership, these companies will likely formalise the difficult decision and scale back their investments in cutting edge manufacturing capacity/expertise.

Net Cash as a % of Total Capital:
Semiconductor Industry versus S&P500



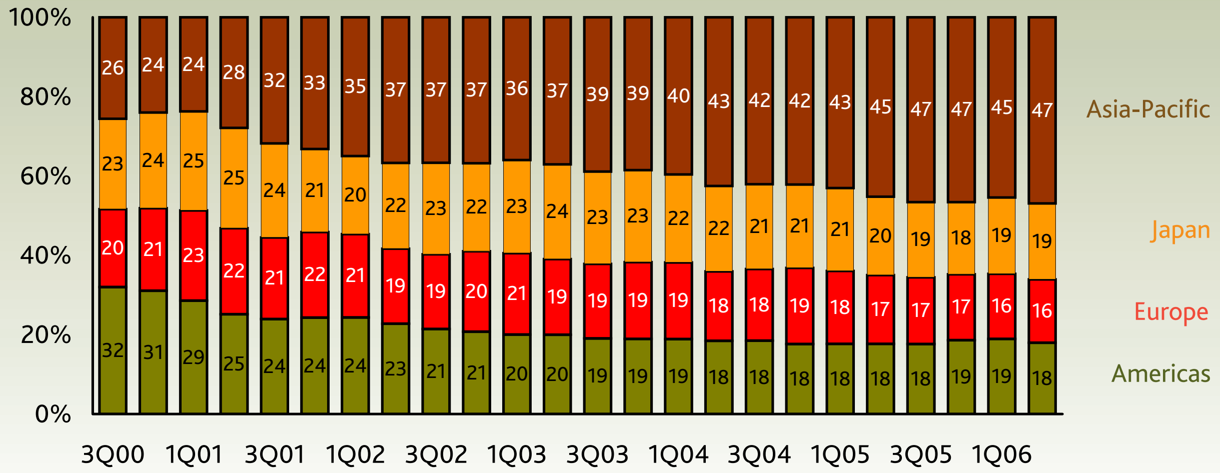
Source: World Semiconductor Trade Securities (WSTS) and Bernstein estimates and analysis

Instead, they will outsource the hereto sacred internal manufacturing know-how to the external foundries (sub-contractors) such as TSMC and United Microelectronics in Taiwan. In addition, they will manage the existing fabs conservatively, maintaining and tuning them to specialise in trailing edge products. The benefits of the new model will be evident in higher free cash flow generation and a less cyclical business.

On paper, the new strategy looks attractive; however these companies will face big challenges ahead. In the semiconductor industry, chips are designed and customised to each manufacturer's proprietary recipe. Naturally, having control of both chip design and manufacturing allows chip makers to differentiate their products to a much greater extent. This flexibility will be lost under the new business model. Their new chips will also be less cost competitive because the "outsourced fabs" of TSMC and United Microelectronics will insist on earning their fair share of the pie. Instead, the new "fabless" companies will only be able to differentiate based on their innovative/clever designs and relationships with their customers. Imagine the difficulties involved in transforming the way of thinking of these old line semiconductor makers who were once proud of their manufacturing heritage and expertise?

Longer-term, we can probably think of this shift to "asset light" manufacturing model as another version of the outsourcing strategies adopted in the industries of other Western countries. One effect will be the increasing importance of Asian companies in the semiconductor industry, especially Taiwan. Another will be the emergence of a small group of "surviving" large chip makers (such as Intel, Samsung and Texas Instruments) with the advantage of huge scale and R&D budgets able to squeeze the remaining small players.

Semiconductor Industry Composition of Revenue by Geography



Source: World Semiconductor Trade Securities (WSTS) and Bernstein estimates and analysis

OUTLOOK

While we have long been cautious about the stretched finances of US consumers, we think that a more accommodating monetary policy (lower interest rates) and a lower gasoline price (courtesy of the oil price sharp correction) could prevent the US economy from falling apart. At the same time, demand from Asian consumers remains generally healthy.

Valuations of large capitalisation technology stocks are not demanding and we are happy to hold many of those companies where growth prospects are attractive enough. Many signals indicate a period of good prospective returns from technology stocks in the medium term, with the only potential hurdle the risk of consumer's apathy in the USA.

While competition in many technology areas remains fierce, factors like consolidation among telecom equipment makers, increase in IT corporate spending and renewed interest from private investors for technology investments, will likely maintain a favourable environment for the sector.

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), 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.

Platinum Asset Management Limited ABN 25 063 565 006 AFSL 221935 (Platinum) is the responsible entity and issuer of the Platinum Trust Funds (the Funds). The Platinum Trust Product Disclosure Statement No. 6 and Supplementary (PDS), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's website, www.platinum.com.au, or by contacting Investor Services on 1300 726 700 (Australian investors only), 02 9255 7500 or 0800 700 726 (New Zealand investors only) or via invest@platinum.com.au.

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.