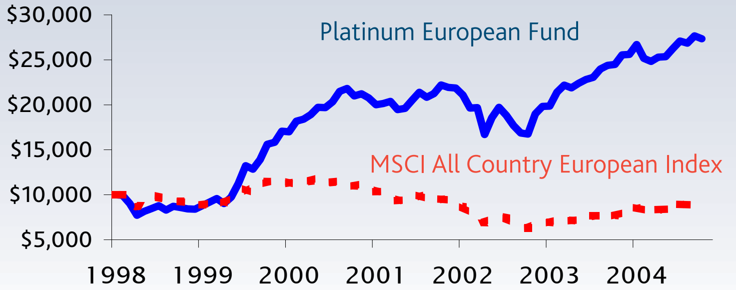
PLATINUM EUROPEAN FUND

Toby Harrop
Portfolio Manager

PERFORMANCE

European markets rose 4% in the opening three months of 2005; this gain was a refreshing contrast to the performance of Wall St (which fell 3%). The decline of the euro against the US dollar (by 5% over the quarter) may explain the difference; as noted in the last report, the Europe/Asia exchange rate is also important for continental businesses, and there has been little relief for the Europeans there. Another potentially significant event was the reversal in bond markets after the US January inflation data; again the European bond markets fell less than their American cousins. European Central Bank rhetoric notwithstanding (they are "vigilant" in watching for inflation after several years of strong money supply growth), there is a *declining* unit labour cost trend underway in Europe, and the strength of the currency since 2002 is still pushing traded goods prices lower (measured in euros). Thus while the US ten year government bond yield has risen 0.5% from its February low (now yielding 4.5%), the German equivalent has risen less than 0.2% (and currently yields 3.6%).

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 31 MARCH 2005



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

Western European markets varied from +2% in the UK and Germany, to +10% in Denmark (shipping giant AP Moeller is a nearly a third of the Danish stock market, and accounted for over half the market's gain). Paris and Amsterdam each added 6% in the three months. Further east the results were more exciting, reflecting the worldwide blow-off in emerging markets: Czech Republic +13%, Budapest +16%, Romania +18% and Ukraine up 9-10%. By industry, it was generally the economically sensitive (auto parts, transport, consumer products) and energy areas that showed the strength (+10-13%), while technology/telecoms were the notable laggards (though they were only down 4-6%). Paper and forest products disappointed by being down a little for the quarter - the industry seems to be having trouble implementing the "announced" paper price increases in Europe.

With the Australian dollar 2-3% stronger against the European currencies on average, the MSCI Europe measured in A$ gained 2% for the three months. The Platinum European Fund lagged a little, increasing by 1% over the quarter. Strong performances from engineering group Elexis (+25%), laboratory testing network Eurofins (+24%), paper machinery supplier Metso (+19%), and German DIY retailer Hornbach (+16%), reflected the improving profits announced by these companies. Also among the Fund's major holdings, French retailer Carrefour added 17% as the market was relieved at the appointment of a new chief executive (from inside the company). The Fund suffered from two technology-related holdings, namely Alcatel (-18% over the quarter) and Medion (-20%). Share price declines of this magnitude seem unwarranted, and we are gently adding to the positions. The (modest) short positions in the Fund brought mixed but not significant results over the quarter, and the Fund suffered the rising A$ (being less than 20% hedged) to finish with a disappointing 1% gain overall.

CHANGES TO THE PORTFOLIO

Changes to the portfolio over the quarter included selling down the position in SGS Surveillance (inspection and testing) which has been a strong performer over three years, and now seems fairly priced. We have been steadily adding to the (apparently) oversold "technology" companies - both in semiconductors and passive components, as well as Medion and Alcatel as mentioned. We took the chance on brief share price weakness to add to both Adidas and Henkel - these are both among the ten largest holdings now. In addition we have started to buy a business in the nuclear power plant engineering area, as well as one in OLEDs (organic light emitting diodes - a possible/likely successor technology to the currently booming area of liquid crystal displays). Finally, we made an investment in a UK company - specifically an engineering supplier to the mining industry. The Fund is, however, still marginally net short UK equities, even after this positive step.

COMMENTARY

Globalisation and its impact in the German share registers

In recent months, one of the more interesting situations has been that of Deutsche Börse AG (ie. the company which owns the German stock exchange - rather than the exchange itself), and the story highlights the changes in the structure and ownership of the capital markets in Germany.

Deutsche Börse, long-owned by a collection of financial institutions, was partly sold and listed on its own exchange in 2001, amid much fanfare, with the new capital earmarked for "consolidating" (ie. buying) European (and global) stock (and derivative) exchanges. A well run and highly profitable company, Deutsche

Börse had invested lavishly in computer systems, and the business was vertically integrated (including clearing and settlement activities). In addition the company has control of the Swiss and German derivatives market, where the German government bond future is the key product. In the four years since listing, Deutsche Börse has attempted or undertaken several expansion steps, from US derivatives to European clearing activities. The prices paid and/or success enjoyed have been mixed. But all along, it has been well known that Deutsche Börse's true desire was to buy the London Stock Exchange (LSE). By late 2004 the company was sure the time was right, and made a bid for the LSE in December, pushing LSE stock up to a market value of £1.5 billion. Other bidders (notably the French exchange) were anticipated, and many fretted that the eventual takeover price would be too high.

Since then, events have taken an unexpected course. Dissenting shareholders of Deutsche Börse, instead of selling their stock, demanded the cancellation of the bid. They, and opportunistic others (eg. hedge funds) also began buying Deutsche Börse shares with the intent of voting down the proposal. However, the appropriate meeting is not until later this year (ie. where they could vote their stock) and by then management could have paid up to secure the British prize. Even in February, when dissenting shareholders held 30-40% of Deutsche Börse, the company's management were muttering about "rebels" (rather than owners)! A few weeks ago, the shocking backdown came: the bid was cancelled, and the company promised to "return" (through dividends and/or purchasing its own shares) over Eu1bn cash to shareholders. Deutsche Börse shares jumped up, LSE shares fell sharply, and (mainly foreign) investors had their first major say in the internal management of a large German company (at least in recent decades).

Two other points to note are that (1) recent research suggests that foreigners own over 50% of the free-float of the DAX companies (the largest thirty listed German companies); and (2) we have always assumed that German pragmatism, and the blowtorch of proximate Eastern Europe would be the dominant forces encouraging greater profit focus in corporate Germany; perhaps (foreign) shareholders will play an important part too. There are many problematic and unattractive facets of the wide-ranging phenomenon labelled "globalisation"; one of the medium term effects, for better or worse, seems sure to be the exploitation for shareholders of the powerful business positions of much of Deutschland AG.

A nice business (if you took the time/effort to invent it!)

Merck KGaA (the original, not its famous ex-subsidiary in the US) is a German chemical/pharmaceutical company which has several business units. One of these has achieved sales (2001 to 2004) of Eu276mn, Eu377mn, Eu438mn, Eu583mn: growth of 28% pa. The business has only a couple of competitors, but in the relevant "high end" of its market, Merck tends to have overwhelming market shares. The business is scaleable both in a manufacturing sense and in the sense that R&D breakthroughs give rise to new uses. Customers are very large and usually brutal to suppliers, yet seem to be in no real position to usurp Merck's profits in the area. The chemical which Merck supplies represents just a few percent of the cost of the product of which it is the core; the end-product in question is perhaps the hottest major electronics area of the moment.

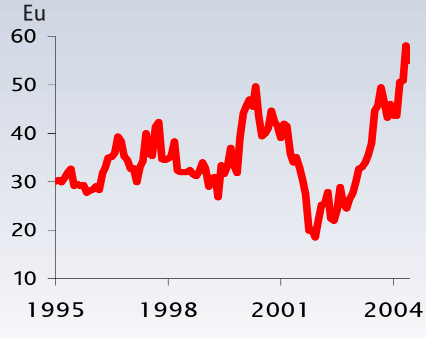
In 2004, Merck streamlined itself to a comparatively simple structure comprising ethical pharmaceuticals, generic pharmaceuticals, and chemicals. This simplification prompted the company to publish more detailed results of its operations, for the first time revealing the profitability of the specific chemical business outlined above. Even for those who had suspected handsome profits (and had held the shares of the company for years because of this business), the reality is breathtaking. On 2004's Eu583mn of sales, profits were Eu299mn! Against both sales and capital employed (or, loosely ROI), returns are over 50% (*in one year*). 2004 was a good year, but those returns in 2003 were still between 45% and 50%. 2005 is shaping up to be an improvement on 2004.

This wonderful business is in fact the development, manufacture and supply (to display manufacturers) of liquid crystal mixtures. These form the core of LCDs (liquid crystal displays), which are found in mobile telephone and car navigation displays, in laptop and desktop computer screens, and increasingly in television sets. As the size of the display surface increases, and especially if the picture needs to change quickly (eg. for television), the required characteristics of the liquid crystal mixtures become more and more challenging. "High end" thus tends to mean recently-developed, patented, expensive, and used in innovative products - such as in wide screen TVs.

How did Merck achieve such a dominant position in such a business, and how does it maintain it? Persistence, for one thing - the company had studied liquid crystals for many decades, so that when commercial applications became plausible from 1968 Merck was ready and has been a key player ever since. It is true that several erstwhile competitors dropped out of the business in the 1980s (and even 1990s) - real volumes seemed distant, and alternatives such as plasma and OLEDs (organic light emitting diodes) made some nervous. Perhaps more interesting is how the company has grown with the industry in the last 5-7 years as it has become very large: here the key seems to have been the way Merck's scientists have worked with customers such as Sharp, Samsung, LG Philips etc to develop breakthroughs. Issues - once thought insurmountable - such as power consumption, switching time, viewing angles etc - have been addressed so that today 165cm TV screens are being produced; as recently as 2001 this market was presumed to be beyond the capability of LCD screens. Capitalism's development power is often bewildering when a network of players work on technical difficulties, and Merck has managed to keep its privileged place through the storm (the LC mixtures has been the only consistently profitable part of the LCD revolution).

For us it was fortunate that the stockmarket's focus when it came to LCDs was (and is) predominantly on the giant Japanese, Korean, (Taiwanese, Chinese etc) display manufacturers. Those companies spend $1-2bn (*billion*!) to build LCD fabrication plants, they wrestle with plant yields and new techniques to make the "sandwich" which forms the display, they struggle with the backlighting issues (30% of the cost of a large LCD) and then they compete violently on price to entice consumers to trade up to these attractive new products. Meanwhile, the super-profitable core of the LCD bonanza was awaiting discovery in an old German family chemicals group in Darmstadt. To be fair we hoped/expected the LCD business to feed the earnings and performance of the shares a few years ago, but have enjoyed the market's "discovery" nonetheless (or all the more!?) in the last 18 months. The overall value of the group is now Eu11bn (A$18bn), with the family owning around three-quarters.

Merck KGaA (Germany) Share Price



Source: Factset

From here, of course, the question is what next? We continue to hold Merck, which also has one of the world's best generic pharmaceutical businesses (its Australian subsidiary Alphapharm is in fact the largest drug company in this country) and some promising products in its ethical pharma business. It seems that all three legs of the company can propel the enterprise forward in the coming years, so that the shares look attractive still. In addition, the signals emanating from a company such as this - science-driven, long term, independent, bold and original - are worth heeding. With this in mind we have followed Merck's lead in the potential future of the displays business: the company has bought two or three businesses in the OLED area in recent months, and the transaction amounts are larger than one would expect a merely defensive (or curious!) player to make. Thus as mentioned earlier in this report, the Fund has invested also in an OLED business.

OUTLOOK

Prospects and positioning

In the last few days, the macroeconomic news from Europe has been uninspiring - German unemployment has now climbed up over 12%; in general the forward indicators (investment intentions etc) point to low general growth again this year. On the one hand this makes interest rate rises unlikely in Europe; on the other, in the light of the various points made above, it emphasises that investing in, say, Germany, is about buying shares of businesses, not the whole market, and certainly not the domestic economy.

At the end of March 2005, the Platinum European Fund was 83% long and 9% short for a net exposure of 74% to European shares. The Fund was exposed 18% to the A$, 61% to euros, and 20% to other (primarily Scandinavian) currencies.

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

CATEGORIES	EXAMPLES OF STOCKS	MAR 2005	DEC 2004
CONSUMER/RETAIL	ADIDAS, HENKEL, HORNBACH, DOUGLAS	**16%**	**16%**
CHEMICALS/MATERIALS	LINDE, MERCK KGaA	**15%**	**15%**
CAPITAL GOODS	OCE, SCHINDLER, SIEMENS	**14%**	**14%**
TECH/MEDIA	INFINEON TECH, ALCATEL	**11%**	**9%**
MISCELLANEOUS SERVICES	DEUTSCHE POST, VEOLIA ENVIRONNEMENT, GFK	**11%**	**11%**
PHARMACEUTICAL/BIOTECHNOLOGY	NOVOZYMES, GLAXOSMITHKLINE	**9%**	**10%**
FINANCIALS	CREDIT AGRICOLE, NORDEA	**7%**	**8%**

Source: Platinum

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.

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. 5 and its 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.

DISCLAIMER: The information in this Quarterly Report is not intended to provide advice. It has not been prepared taking into account any particular investor's or class of investor's investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Platinum does not guarantee the repayment of capital, the payment of income or the performance of the Funds.