PLATINUM EUROPEAN FUND

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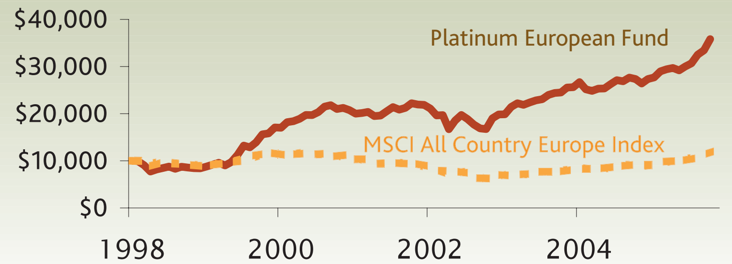
PERFORMANCE

With a gain of 14% (the MSCI in A$), European stockmarkets performed well from an A$ perspective in the March quarter. This was mostly about rising stock prices, though the gain is flattered by weakness in the A$ versus European currencies over the period.

The breadth of the advance was unusual, with only about a tenth of the largest 500 stocks down at all (and most of those not by much), while over 100 stocks managed a gain of over 20%. Small stocks, which have way out-run their larger siblings in recent years, registered another good quarter; and while several big takeovers distort the industry return rankings, there was a clear bias towards the industrial/cyclical sectors; "safe" areas of the market were shunned. In light of the southern European cracks in the monetary union façade, vigorous protests in Paris, and the generally slowing earnings growth estimates, stock market investors do seem to be doggedly optimistic.

We on the other hand, while usually (cautiously) optimistic, have found ourselves unable to muster the wild abandon of the crowd, and have therefore continued to run a ***relatively defensive*** position, with cash and (index) shorts resulting in a net exposure mostly around 70-75% over the quarter. The Platinum European Fund performance of nearly 17% for the three months suggests that we should - again! - have been more aggressively (or agreeably?) positioned; the modestly costly 20-25% hedge into the weak A$ implies that the underlying performance of the stocks in the Fund was better still. In fact we took the chance (below E58c/A$) in late March to add to the A$ hedge so that the portfolio is now nearly a third exposed to A$. Also, given the price moves, we continued to shift the portfolio away from the small and mid-sized, high-flying stocks toward some <u>large</u>, steady, attractively-priced alternatives.

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 31 MARCH 2006



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

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	MAR 2006	DEC 2005
TECH/MEDIA	INFINEON, ALCATEL, ERICSSON	**23%**	**20%**
CAPITAL GOODS	SIEMENS, RIETER, METSO	**19%**	**21%**
CHEMICALS/MATERIALS	NORSKE SKOG, UPM, SHELL	**17%**	**16%**
CONSUMER/RETAIL	HENKEL, HORNBACH, DOUGLAS	**17%**	**11%**
PHARMACEUTICAL/BIOTECHNOLOGY	NOVOZYMES, SCHERING	**6%**	**10%**
MISCELLANEOUS SERVICES	TNT	**4%**	**10%**
FINANCIALS	CREDIT AGRICOLE	**4%**	**7%**

Source: Platinum

COMMENTARY

Italy - is Berlusconi versus Prodi, or France versus Germany the key?

The longest serving Italian government since WWII (five years of black comedy under billionaire media magnate Silvio Berlusconi) faces the electorate as we write, and polls indicate Romano Prodi's "centre left" (or "Trotsky-ist red inferno" if you prefer Berlusconi's description) should sneak over the line - recent electoral rigging by the incumbent notwithstanding. Financial markets, judging from the credit spreads (ie. the relative pricing of German versus Italian government bonds - in a monetary union there is of course no longer a Deutschmark/lira exchange rate to reflect the risk of Italian credit obligations), presume that Prodi will win, and that he will tackle the economic difficulties the country faces [1].

However, while there is considerable doubt that the next Italian government has the resolve to tackle the problems facing the country, the real issue is that it seems unlikely that resolution *within the framework of monetary union* is possible at all. Seemingly innocuous changes of emphasis can disguise significant news, and Bernard Connolly of Banque AIG reckons the first week of April may have seen such an example. This week, after a month of (German-led) mutterings about the need for further interest rate rises, the head of the European Central Bank, M. Trichet, hosed down such expectations, saying the market was wrong to assume that rates would rise (soon). Although France is not showing any of the animal spirits which - dare we say it - appear to be coming to life in Germany, the real issue here is the increasingly wide-spread concern among French officials that *some form of debt repudiation by Italy* is becoming increasingly likely. In our December report we noted the German position on this: "Germany will not tolerate high inflation to accommodate other members of the monetary union", and we also noted that rate rises, even from a low level, greatly add to the woes of Italy (and its place in the monetary union).

Long-time observers of the European experiment will recall that while the French saw many advantages to drawing Germany et al into a monetary union, the German people were reluctant to part with the stability of the Deutschmark, and were only swayed by reassurances from Chancellor Kohl, and by the Bundesbank's insistence that various rules limiting government debt, deficits, and inflation be imposed upon all prospective members (though

[1] It is noteworthy that the "spread" between the Greek and German long bonds has been drifting steadily wider for nearly six months - Greece is less important than Italy in the monetary union context, but still crucial for perceptions (and realities!) as to EMU's operation under "crisis" conditions.

clearly the southern Europeans were the real focus of this [2]). Despite their good intent, these stipulations were destined to add to the strains of the monetary union, because having jettisoned monetary policy, individual countries were also giving up their fiscal flexibility - all of which leads to the familiar conclusion that a monetary union in the absence of meaningful political union will *inevitably* face a crisis. Recent years have in fact seen the rules on fiscal discipline broken by most countries, and the penalties for such rule-breaking diluted to practically nothing.

These contrasting Franco/German perspectives can still be seen today: Germany requires countries to undertake the tough reforms necessary (in Italy's case, several years of relative wage decline coupled with government spending restraint and/or tax increases) to be a responsible member of the union; the French are desperate to keep the Italians in the union (for fear that if one goes the next is only a matter of time), and understand that Italians will not voluntarily suffer the hardships required to restore their own competitiveness. The French worry that the Germans cannot see the risks to the *continued existence* of the monetary union, and rising interest rates only accelerate the inevitable. All this may seem a lot to take from a mere change in tone by the central bank chief, but we think this is what is afoot, and as mentioned several times, the risk of other members "bailing out" Italy via a disproportionately weak euro leave us reluctant to hold a full exposure to that currency.

2 In fact the Bundesbank most likely intended various southern European countries to fail these tests and not be admitted to the union in the first place; however, some imaginative national accounting allowed Italy to "meet" the entry criteria, and arguably the time bomb started ticking at that point.

More riots in France - and tortured comparisons with 1968

Student-led protests which have expanded to be general trade union strikes in France in recent weeks have drawn comparisons with the events of 1968 in Paris. However, while this romantic notion may be attractive, some harsh commentators have pointed out that in fact today's rabble, far from having any *revolutionary* spirit, are marching merely to maintain the status quo! The proximate cause of the students' complaints is a law allowing businesses to fire staff (under 26 years of age) without cause. Because pre-existing redundancy terms were so expensive for small businesses, the object of the new law is in fact to allow companies to hire without fearing a loss of flexibility. So what most pro-market advocates would see as a job-generating law, the students are interpreting as a loss of the "right" to lifetime employment enjoyed by previous generations. Youth unemployment in France is 23%; in the poor suburbs it is closer to 50%. Overall unemployment, still near 10% today, has not fallen below 8.5% for twenty years. Clearly the status quo is not perfect!

But to be fair, the protests may be specifically about this law (and thus probably off-beam) but are more generally about the balance between unfettered markets and government regulation of the economy. And of course this is all seen in the general context of "globalisation" (a term associated with fear in France, incidentally). What is interesting in that country, and in fact helps France remain a key touchstone in a world currently dominated by market ideology and outlandish corporate profitability, is that the debate is far from uninformed. Fifteen year-old high school students, interviewed on the street, point out that record corporate profitability makes such "draconian" labour laws "unnecessary". Now while there will be disagreements about the logic of that statement, there is a lot to be said for a place where fifteen year-olds are aware of the state of corporate profitability and wish to relate that statistic to labour market regulation and society in general.

In the end though, any debate focusing on the domestic statistics is too narrowly framed. According to the French government, the "purchasing power" of the average salary in France is little changed this decade and has grown by only 14% since 1980 (having risen by over 50% in the booming 1960s and by another third in the 1970s). Given the skewing of salary growth *away* from manufacturing and "unskilled" service jobs over recent years, it is clear that large segments of the population would not even have matched that modest 14%. All of which brings us back to globalisation, and the massive labour price arbitrage that "emerging" economies are enjoying against the rich world. For a time - and perhaps we are nearing the peak now - western corporations enjoy the best of all worlds: exploitation of their strong market positions without sharing the spoils with labour, at a time when their big, "mature" markets are still rich enough (or financially engineered enough) to "afford anything" and, simultaneously, their new markets are growing swiftly.

It certainly seems that prospects for, say, Siemens, with its massive footprint in almost all (new and existing) markets, and its alluring product quality, are considerably more promising than the prospects of a purely domestic, western European middle-market consumer business. Clearly in any given large (even stagnating or declining) market there is room for the good companies to thrive, but business - especially, say, retailing - is not actually much fun without a tailwind.

More generally, notwithstanding the current state of near-perfect profit-making circumstances, it is not clear that global conditions in the medium term guarantee a structurally high level of profitability at all. On the contrary, profitability should logically be under pressure over time. To be specific, European corporate profits grew at over 20% in each of 2004 and 2005, but even with recovering domestic economies (Germany, anyway) the optimists do not expect more than 10% earnings growth this year. The still hot mergers and acquisition mania aside, it seems that the broadest part of the stock market advance may be behind us, and that stock specificity is once again paramount.

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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