PLATINUM EUROPEAN FUND

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PERFORMANCE

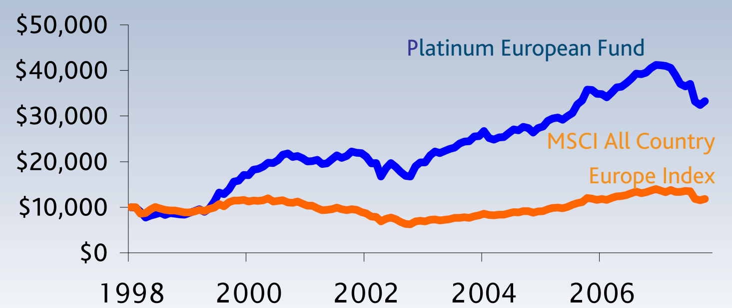
Just 15 of Europe's top 500 stocks managed a 10%+ gain for the quarter… while 80 of them fell by over 25%! Overall the top 500 were down 16% for the quarter. The MSCI Europe Index fell a similar amount, while a weaker A$ meant the MSCI Europe measured in A$ fell 12%. The Platinum European Fund fell 10% over the three months.

COMMENTARY

As we write this report, Union Bank of Switzerland (UBS) is reporting a further US$19 billion write down on its American assets, and announcing a CHF15 billion capital raising, adding perhaps 60% to the stock of outstanding shares in the company. The share price is around CHF30, down from CHF80 this time last year. (A not unrelated point is that, these days, a Swiss franc is roughly equal in value to a US dollar).

In many ways UBS's announcement is yesterday's news, a symptom and simultaneously a cause of the woes in credit markets. Banks need new capital, and once they raise enough of it, their credit creation function will be revived. Further pain may await today's shareholders, and clearly UBS needs to convince investors to hand over another CHF15 billion in capital, but assuming there is a price for everything, this will happen soon enough. As investors, we are trying to balance a morbid contemplation of specific instances of self-mutilation, with an eye to opportunities in good businesses undamaged by financial flights of fancy.

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 31 MARCH 2008



Source: Platinum and MSCI. Refer to Note 2, page 4.

Perhaps a good way to appreciate the circular nature (both virtuous and viscous) of the (western) financial system is this: UBS's capital increase is "fully underwritten" (ie. guaranteed for a fee) by … several other capital-constrained banks! Once UBS has its money, presumably it will be underwriting capital increases by its peers – if you can just believe, then everything should be ok! Fiat money systems in general require a suspension of disbelief, and despite 100 years of central bank history coinciding with persistent inflation, that underlying confidence still seems in place.

The trick for the coming months may well be this: there will be the temptation to buy back into the banks at what looks like low valuations. And there will be certain periods where this works. But in general, after an undisciplined frenzy such as displayed by the banks in recent years, the rebound is ultimately dull, and stock market leadership goes elsewhere. Regarding the investment banks specifically, it is already being mooted in the US that the price of commercial bank-like access to various Federal Reserve liquidity mechanisms is commercial bank-like regulation. That is, more onerous capital adequacy requirements, and keener oversight. Preliminary estimates indicate this might ***halve*** the apparent balance sheet capacity of investment banks. A more invidious idea bubbling-up is that PE ratios of these businesses need to be permanently low. The nature of the investment banking business is that the big profits are in the new ideas (securitising debt instruments in this cycle), but because new ideas tend to hide familiar risks in new ways, they eventually lead to the same inevitable bust. On this view – and ignoring an unusually long business and credit cycle, especially in Australia – we are reminded simply that banks are the "ultimate cyclical" business (ie. of boom profits and then capital write-offs). Put another way, as one bank executive recently remarked, "there is no need for banks to come up with fancy new ways of losing money – the old ways still work perfectly well!". Where it leads us from an investment perspective is that banks need modest PE ratings. Say 8-10 times at most, and that, after a 50bp per annum (ie. 0.5% of loan book) loan loss provision. On UBS's expected new share count, market estimates are that the company will earn CHF3-4 per share in 2009. On this basis, today's CHF33 share price is not terribly appealing to us.

Elsewhere in the markets, a key question is how the cycle plays out for the metal and mineral companies, and for the large capital goods exporters, as China (and India, Brazil, the Middle East etc) manage their booms or suffer good slowdowns. Mineral company share prices are strong, and European steel companies, for example, are still near their highs. Yet capital goods exporters eg. Siemens, ABB, Schneider, Metso etc have fallen 25-40% since October.

Things are somewhat complicated in Europe by the strength of the Euro, although 15-20 years of "globalisation" means that in the main, the big firms have enough breadth (in manufacturing, sourcing, hedging and financing) to offset much of the currency disadvantage. Further, we have a suspicion that for now, the Euro has appreciated enough against the US dollar; perhaps more to the point, it seems likely that the Euro should weaken against most Asian currencies from here.

CHANGES TO THE PORTFOLIO

The portfolio has seen several changes in the recent months, notably six new additions, partly funded by using cash, and partly funded by the sale of two hot stocks: Norwegian fertiliser group Yara (enjoying the grain price boom) and autocatalyst leader Johnson Matthey of the UK (buoyed by its strong business and by takeover speculation after BASF swallowed one of its few peers in 2007).

Two of the new stocks are old friends: industrial enzyme giant Novozymes, which we re-entered under DKK400, having finished selling the stock at DKK600-700 last northern summer; the other is the German passive components group Epcos. This company has some very interesting technology in piezo actuators for diesel fuel pumps, which considerably reduce fuel usage. These are already being installed in diesel engines in the German car companies (recall that Europe is the stronghold for diesel engines), and the petrol version will be available soon. Epcos is a minnow in some of the passive component businesses dominated by giant Murata of Japan, but to go on penalising the company for the Euro/Yen currency impost while ignoring these auto businesses it dominates seems too harsh.

Truly "new" investments for the Fund include EADS, owner of (a) a large part of the European defence industry (a reasonably steady business worth roughly today's market capitalisation), and (b) Airbus. EADS has plenty of cash in the bank, and thus there is implicitly a negative "value" attributed to Airbus – its products are priced in US dollars and Boeing lives in Seattle, and the delays to products such as the giant A380 have sapped investor confidence (and near term profitability). However, with the development expense for this aeroplane behind us, Airbus faces the possibility of a two decade boom, and thus looks valuable rather than value-less!

Other new companies are in the solar area (these stocks have tumbled over six months despite oil prices staying high), an inspection and testing company (ever greater regulations support the few global players in this profitable area), and JC Decaux (outdoor advertising).

We reduced the Australian dollar hedge on the portfolio at good prices in the quarter, so that today the Fund is just 11% hedged into the Australian dollar. With 5% cash and 13% shorts (mostly the DAX, plus some steel and mineral shares), the Fund was 82% net exposed to European markets at 31 March 2008.

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 Unhedged Fund:
Inception 31 January 2005, 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.

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