PLATINUM EUROPEAN FUND

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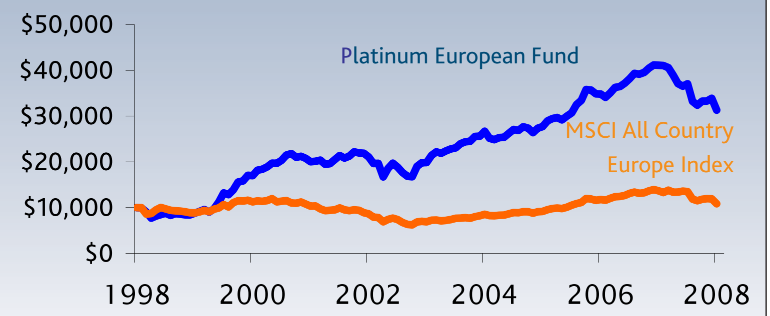
PERFORMANCE

European stocks fell 8% in the quarter and 21% for the year to 30 June 2008 (MSCI, A$). For the quarter (as for the year), the strong sectors were steel (+18% in the three months, local currency), metals/mining (+16%), and energy (+13%). On the other hand, retailers, pulp/paper, banks, and building materials each fell by over 20% for the quarter, and 40 to 50% over 12 months. Media, autos and property sector share prices were similarly squashed. In short, the bear market is in full swing, with just a few Europe-listed stocks benefiting from the high oil price, China's (temporary?) halt in steel exports, or Australia's inadequate infrastructure (iron ore and coal).

On a stock level, just considering the 500 largest, there are 20 stocks up 40% or more for the year, while 7 ***times*** that number are down over 40%. Similarly for the quarter, Bloomberg data reveals 20 European stocks up 20% or more, and 140+ down over 20%. Unloved stocks are no longer hard to find, of which more below.

The Fund fell 6% in the quarter, as cash holdings and gains on short positions offset the lack of any holdings at all in the few "hot" areas mentioned above; disappointingly the Fund was down 24% for the year to 30 June.

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 30 JUNE 2008



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

COMMENTARY

Are European shares now cheap? Is the macro backdrop really knowable?!

As indicated above, the gentle decline of the large European market indices since the peak in July 2007 hides a more savage reality at the individual stock level. Finding unloved stocks is not difficult, but are they really cheap given the apparent risks facing the economy? Many readers will be aware of our reluctance to subscribe to the macro-economic "certainties" of the day, and as the markets start to panic (in early July) that the West faces ***stagflation*** (ie. little growth, but inflation anyway), it may be useful to differentiate today's situation from that of the 1970s.

The level of demand for most goods is of course inversely related to price. So for example, if oil prices go from $15/bbl to $100/bbl, demand should fall (or grow more slowly). In a market like the US, where minimal taxes on gasoline mean that oil price moves are directly reflected at the petrol station, this demand response should be swift. Yet oil had to move another 25-30% on top of its sextupling before consumers retreated (driving miles have finally fallen 5% year-on-year in the latest US data). Aside from the lack of easy substitutes to gasoline, the resilience of demand suggests there were some powerful counter forces.

In fact what has seemed to work quite well in a predictive sense (over the last 10-15 years), is the level of employment in the economy. Where that has been growing, the economies have tended to weather shocks surprisingly well (such as collapsing stock markets, acts of war, the oil price etc). Where employment growth has been weak, seemingly modest headwinds (eg. small rises in Japanese consumption taxes, or political disappointments in the over-governed French economy) have caused disproportionate economic setbacks.

Were there to be a re-run of the 1970s stagflation, we would note that oil price shocks 30 years ago met with a relatively weak global economy: international trade (as a proportion of economic activity) was well below the 1912 level, the world at large was at (cold) war (so the "market" was hundreds of millions of end consumers rather than billions), central planning was widespread (note that prime minister Heath's cabinet in the UK met to determine such momentous issues as the price of local plumbing services!), and in general the pre-occupation was cake-splitting rather than cake-growing.

Today, significant regions of the world are booming, but disproportionate commentary weight is given to the woes of the US, UK, Ireland etc. Corporations in general have manageable debt levels, strong profits and an increasing focus on growth in "the rest of the world". Unemployment in Germany has declined persistently in recent years; the latest figures this week show a continuation of that trend, so that comparably measured, Europe's giant has the same low rate as that of booming Australia.

Is it possible that we'll look back on this current panic as a storm in a teacup? The Asia/Middle-East/Russia/Brazil growth story will, with luck, be augmented by growth in some African countries (now there's an infrastructure build-out "story"!), Japan and "core" Europe are fundamentally sound (ie. not based on housing and debt bubbles), and moreover the world is in the foothills of a new energy boom (to address both oil price and carbon dioxide reduction). Wind/solar/wave electricity, a building materials revolution, and the prospect of electric cars doing to the internal combustion engine what it did to buggy whips, suggest considerable sectors of "structural" growth in the struggling West…

So are stock markets cheap in Europe? Overall, probably not given the absurd weight of resource stocks in the ***UK's*** index! But there are plenty of cheap stocks in the various markets, and notwithstanding the *necessary rather than sufficient* macro thoughts above, it is at the individual company level that we make investment decisions. To give a market "flavour", it is true that recent selling has started to feel like the indiscriminate panic we saw in Germany in late 2002 and early 2003 (from which point that market trebled). Against this observation, although prices have adjusted a long way, it seems that insufficient time (ie. only one year since the peak) has elapsed to suggest a base in the markets.

However, prices are moving (down) fast enough at the moment to potentially require switching from what were “good value” levels in a stock a few weeks ago, to others which have suffered more. We like, for example the business positioning and valuation of UK/Dutch publishing house Reed Elsevier, whose shares have declined from 650p to 550p in the last six weeks. But over the same period, the global retail giant Carrefour has suffered a share price decline from Eu47 to Eu33 and now trades at little more than its real estate value!

In the “mid-cap” stock area (companies with market valuations of say Eu1-5bn), there are many far more dramatic examples, and an interesting signal at the moment is the disproportionate share price response to stock-broker recommendations – even if the new “sell” is based on no new content.

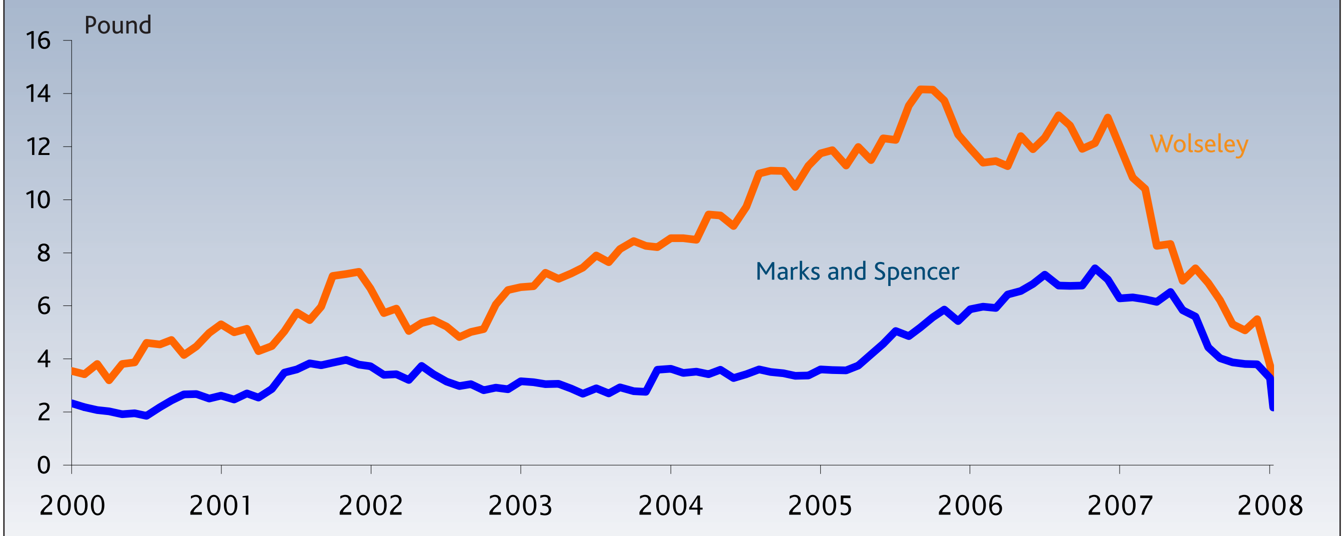
European company meetings

We had about 40 meetings in early June around Europe, with companies in the nuclear, semiconductor, and mechanical engineering industries complementing some consumer and media businesses. Broadly speaking, real gloom in London contrasted with controlled optimism in Germany and Scandinavia, and palpable frustration in France (where excessive hopes invested in the “rightwing” Sarkozy government last year have been pretty well dashed).

We are acutely aware that companies are not especially good at highlighting turning points in their business, so the fact that the meetings with German exporters could be paraphrased as “why don’t you stop asking questions and come and help us pack the boxes in the dispatch area”, should not cloud our judgement about business prospects in six or 12 months’ time. Having said that, the full order books at many German engineers give the companies reasonable “visibility” over the coming few years.

Equally, visits in London to the famous retailer Marks and Spencer, and to building materials distributor Wolseley filled us with concern (indebted balance sheets, in both cases, meeting weak end markets); but the continued collapse of both companies’ share prices mean that they may yet be viable investments (we have no position at the time of writing).

Marks and Spencer, and Wolseley (UK)



Source: Factset

We have written in recent years of the difficulty of investing in Russia – both for stock market participants, and for companies. Swiftly rising tariffs on wood exports are the current emblem of that country's policies to encourage secondary industry in Russia itself: pulp exports are minimally taxed. Similarly, crippling taxes on oil exports are the principal reason for this oil giant to have had ***declining*** oil production four months in a row (at these oil prices!!), but if you care to invest in a refinery in Russia, then once again exporting refined product is encouraged rather than penalised. Interestingly, one of the Finnish paper companies appears to be ready to invest the large sum (in the order of Eu1bn) to build a pulp mill in Russia, just as the tariff regime intends. Elsewhere, it should be noted that at around 3 million cars this year (most foreign, of which many are new rather than used), and growing fast, Russia may well overtake Germany in unit sales of automobiles next year.

While not wishing to alarm unitholders with the impression that we have discovered Russia at this end of its bull market (!), we did meet two interesting companies (one in Sweden, one in Finland) who have built consumer-oriented businesses over many years in Russia. As the car sales figure above, and the traction in secondary processing operations, suggest, it is no longer accurate to imagine a few oligarchs hoovering up the country's natural resource exports and sending the money to foreign tax havens. While that still happens, clearly there is some broadening of economic growth and some consumer exposures in Russia will be interesting at the right price… our work on these Scandinavian companies is ongoing.

PORTFOLIO POSITIONING

Some notable features of the portfolio are its large German weighting of 44% (with an 11% "short" position in the DAX index partly offsetting this), with another 24% in France, and 14% in various Scandinavian stocks. Exposure to the UK, Spain, and Italy totals 6%.

By industry, we have only around 1% in banks. Upstream solar power (ie. polysilicon) and solar capital equipment plays (to a total value of 5%), are larger than our conventional oil/gas exposure in Shell (which is 3.6% at 30 June). On the other hand 16% in "consumer" businesses (eg. BMW, Adidas, Henkel, PPR etc), 22% in capital goods/engineers (Siemens, Schneider, Metso, EADS etc) and 15% in such technology names as SAP, Infineon, and Ericsson, make up the core of the portfolio. 8% of the Fund is in the media area, which is a largely despised industry in today's stock markets.

Currency positioning includes 12% in each of the A$ and Norwegian Krone; otherwise the currency exposure is that given by the underlying share investments: 67% Euro, and a little in the UK and Sweden.

Early July figures show a net invested position of 80% for the European Fund. We like the valuations of the companies we own.

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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