PLATINUM EUROPEAN FUND

Toby Harrop
Portfolio Manager

PERFORMANCE

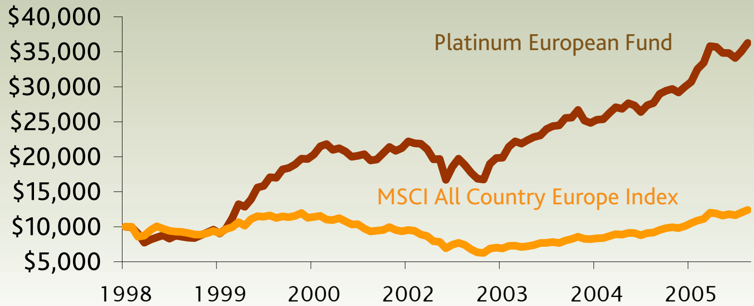
Broad advance; mixed leadership

After the gentle reversal of the three-year bull market in May/June, European shares resumed the climb in the latest quarter. Strong sectors were an odd mixture of real estate, utilities, food retailers, and paper/forest products, as accommodating interest rates combined with investors' fear of slowing economic growth supported the "defensive" parts of the market. At the same time, though, there was little further selling in the perceived "cyclical" stocks; and (surprisingly) the small and mid-cap sectors of the market were not noticeably weak.

Overall the MSCI Europe index advanced 6%, led by various Spanish property companies, and with many takeover targets featuring on the winners' list. A slight recovery in the A$ left the MSCI Europe up 5% in A$ for the quarter.

The Platinum European Fund advanced 4%, helped mainly by some strong performances in the mid-cap (!) stocks. In addition, holdings in Carrefour, Henkel and the paper companies advanced as mentioned above. The Fund was around 70-73% net invested over the period.

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 30 SEPTEMBER 2006



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

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY			
CATEGORIES	EXAMPLES OF STOCKS	SEP 2006	JUN 2006
TECH/MEDIA	INFINEON, ALCATEL, ERICSSON	**20%**	**20%**
CHEMICALS/MATERIALS	NORSKE SKOG, UPM, SHELL	**19%**	**18%**
CAPITAL GOODS	SIEMENS, RIETER, METSO	**18%**	**17%**
CONSUMER/RETAIL	HENKEL, HORNBACH, DOUGLAS	**13%**	**18%**
FINANCIALS	CREDIT AGRICOLE	**6%**	**4%**
PHARMACEUTICAL/BIOTECHNOLOGY	NOVOZYMES, SCHERING	**4%**	**4%**
MISCELLANEOUS SERVICES	GfK	**3%**	**5%**

Source: Platinum

COMMENTARY

The $64bn question ...

Have stock markets reached dangerous levels, and which signals should be used to indicate extremes? It will be obvious after the fact, of course, but on the way to market peaks it is difficult to know which warnings to heed … As we contemplate the quarter at the end of September 2006, a week of "signals" (if that's what they are) certainly suggests that in the endless contest between fear and greed, the only apparent fear for many is the fear of missing out.

As we write, German utility E.ON (a large power generator which, aside from having a daft name dating from the internet bubble days, has generally been sensible, and is run by a CEO whose track record is strong), has just increased its bid for Spanish peer Endesa by nearly 40%, to euro 37 bn (BILLION! about A$64bn). And they will pay 100% cash. E.ON has been trying to buy Endesa for months, and is being challenged by various other players, yet has become so determined to win the prize that it has increased its bid by nearly half. What must we think? That a large, "regulated return" utility in Spain has somehow been such a hidden, misunderstood gem that E.ON's (increased) bid makes sense? Or that even a sensible CEO from a sober German utility has become so carried away as to signal a peak in the M&A froth? Or that cash is indeed such "trash", so certain to decline in value relative to (inflation protected) profit streams, that it is prudent to exchange a vast pile of (borrowed) cash in favour of such streams?

Earlier in the week our erstwhile friends at Merck (Germany, again … hmmm) announced they had paid euro 11bn to buy a Swiss "biotech" called Serono (famous for its owner's success in the America's Cup boat race). So? We don't own the stock anymore but have several reservations: 1. Merck has hitherto been characterised by a high level of internal conviction about its own research (which has led to one of the great German business successes of recent times, namely its LCD chemical mixtures for LCD TV and computer screens), while its external deals led by the scientists have been modest and clever; 2. two of the gentlemen who have guided that behaviour for twenty years departed - without any real explanation - in the last 12 months; 3. Merck then made a hostile bid for Schering (of Berlin) earlier this year but was trumped by Bayer; 4. Merck hired a famous merger/integration "expert" as CFO; 5. they paid a high-looking price (euro 11bn) for Serono, a company which has been "for sale" for several years; 6. in the official press release, the sailor/owner/vendor of Serono kindly praised the combined entity thus created - but will take every cent of his euro 7bn (he owned about 70% of publicly listed Serono) off the table: he does not like the combination so much that he will keep any ownership; and 7. and most of all, Merck's "due diligence" (ie. investigation of the prize they were contemplating) was apparently minimal - which is a lot to take on trust given

Serono's clumsy deal making and frequent failures in recent years. Again - maybe there is another more uplifting explanation to fit this series of events, but it looks simply like a panicked deal. And note that it was one of three "family" deals in the German pharmaceutical sector this week - we will spare you details of the others, suffice to say that the slogan "scale", and the apparently limitless available funding, are combining irresistibly!

Clearly, companies have recovered from the fright of 2002/03, when corporate debt markets were so bearish, that, you may recall, Swedish telecom equipment giant Ericsson was forced into a ridiculous (in hindsight - but also at the time: we bought a lot of stock) equity issue. What a contrast in 2006, then, when E.ON expects to borrow the full euro 37bn, and at an interest rate only modestly above government funding costs. Endesa is, after all, rate-of-return regulated, so what's the risk? Well the nature of the Spanish regulation is interesting in that the <u>system</u> earns a regulated rate of return on its assets at the transmission level. This means that any given operator has the incentive to operate efficiently, but that if all players do so then no super-normal profits are made. In addition, Endesa owns some nuclear capacity in France - which makes it a neat play on the high fuel (ie. gas, coal, oil) prices causing French nuclear to be very profitable at the moment. However, this is hardly a secret, nor is it a protected part of the company's profitability. Endesa is not much of a risk, but on euro 37bn not much risk is required to make wafer thin corporate spreads seem careless.

So the scale of these borrowings - Merck has already announced the terms of its euro 11bn debt placement - and the blasé presumption that the funding part of the deal is a "given" (the difficulty is in beating off the competing buyers!) suggest that a crescendo is nigh. And we are reminded that the extraordinary feature of the financial markets landscape in recent years is the *availability of credit* to governments, to individuals, and to companies, and without discernable (or at least, the traditional) macro-economic consequences such as uncontrolled inflation. It is a mystery, and for the moment the only obvious conclusion is that the low-risk profits have largely been made.

We have mentioned the impact of private equity funds in recent quarterly reports, and there is no let up in activity from them. The only new point to make is that where the serious private equity players were worried two years ago about overpayment by irrational newcomers, the private equity horde has now fully embraced the idea of deal-making as opposed to investment. That is, price is no longer the main issue, so much as deal structure, "refinance-ability" and the speed of resale. To be clear: private equity operators are not superior managers, they are simply more aggressive financiers. In a world awash with cheap credit, it is natural that the principal marginal influence on stock markets is an ***agent who simply brings indebtedness*** to the only not-yet-indebted sector (governments and individuals already being generally highly geared). "Private equity" appears to be a fully expressed feature of stock markets.

Hedge funds have surprised many by their poor returns, and also by their undifferentiated performance (they did not shine in the May/June sell-off, and they seem to herd in similar stocks). Arguably more surprising still, is that a single fund can lose 80-90% of its money in one trade on US natural gas futures, without apparent consequences for its banks, or for credit markets generally. Clearly for these losses to be possible, though, a lot of risk is being run.

But not, seemingly, by traditional investors. As mentioned, the "defensive" areas of food retail, water utilities, etc have had a good few months, and it does seem that good old mutual funds and insurance companies are the ones who remember the dark days of the millennium's infancy. Does this defensive positioning mean that the markets will rise further, climbing the "wall of worry"? Perhaps, but one of the troubling aspects for us is that a broad range of stocks seem well priced or fully priced - the markets do not seem to be offering value in significant areas at all. These conditions are consistent with the behaviour of private equity players, who have resorted to buying businesses such as semiconductor manufacturers (eg. Philips semiconductor, Freescale Semiconductor) - these are hardly steady cash generating companies which can be leveraged and easily resold.

Finally, it has become clear that with banks all over the world consistently reporting vast "trading" profits (and even paying the "traders" large bonuses as if to imply brainpower is behind the profits), that either a huge amount of treasury (ie. balance sheet) risk is being taken, and/or that banks have collectively found a way to "sell volatility". Real trading profits come and go depending on luck, good ideas, and market opportunities. For the banks from Sydney to New York to be reporting such consistent profits suggests that "trading profits" is a euphemism, and that therefore risks are being run that will become clear only when interest rates and/or volatility move higher. The apparent calm and safety of the (bond, stock and currency) markets, despite frolicking oil prices, unprecedented speculation, and much unsettling military and political news leaves us anything but calm!

PORTFOLIO CHANGES

Sold a few defensives, added to several positions

Through the quarter we took the chance to sell some of the defensives in the portfolio such as TNT (which is the Dutch Post office and the eponymous courier/transport business), UK spirits giant Diageo, and l'Oreal. These, along with the French TV companies (TF1 and M6) had become expensive in our eyes. We added another name to the portfolio of paper stocks, Finnish group Stora Enso, and we doubled our position in oil refiner Neste when that stock followed the oil price sharply lower. In smaller stocks, we added significantly to market researcher GfK, railway signalling company Ansaldo, and the German financial advisory group MLP.

Overall this has left the portfolio 83% long, and 11% short (mostly German Dax index futures, as well as two Spanish banks) to be 72% net long European stocks. 39% of the currency exposure is to the (seemingly cheap) A$, with the remainder in euros (38%) and the other peripheral currencies of Europe.

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.

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.

Platinum is a member of the Platinum Group of companies.