PLATINUM EUROPEAN FUND

Toby Harrop
Portfolio Manager

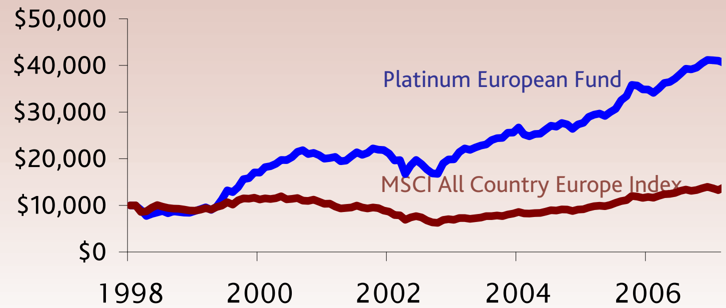
PERFORMANCE

The Fund's performance for the 12 months to September 2007 was more or less in line with the MSCI benchmark at +7% and +8% respectively. For the quarter, it was poor at -5% (versus MSCI Europe -2% in A$). Specifically, we had 15% invested in ten small-mid sized stocks, each of which declined 20-30% in the quarter. The short positions, which helped greatly in July/August, served the Fund poorly in the second half of the stanza, and overall cost some money.

Markets have behaved surprisingly, as usual, in the past few months – with a more gentle sell-off, followed by a much stronger recovery than we expected. Not that the general economic picture – ignoring the debt elephant in the room – is so bad, just that the credit seizure may have revealed the risks posed by unprecedented consumer debt. We are more concerned over the sustainability of US/UK/Spain/Australia etc debt-based economic growth, than we are with the credit-fuelled M&A activity in markets.

Much discussion has been devoted to the so-called "credit crunch", and we have little to add, other than to observe that delaying judgement day merely adds to the problems borrowers will eventually have to face. However, that is for the future, and although stock market volumes are currently low in Europe (and the US) – in stark contrast to the euphoric activity in emerging markets – the recent recovery of the pesky small stocks (including those referred to above) suggests a general broadening of investor confidence. As we are unable to ignore the threats posed by the economic balancing act between debtors and creditors (both individuals and countries), we expect to continue running a cautious overall stance, while striving to find a few neglected gems.

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 30 SEPTEMBER 2007



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

COMMENTARY

Profitability – or the lack of it

As many are aware, the actual ***rating*** of markets – as measured by the price/earnings ratio – is not really higher than historical averages at around 16 times. (Awkwardly, this average comprises a lot of banks and oil companies at 8-12 times earnings, and a lot of the more interesting businesses at 20+ times). Even so, the average rating is not alarming. The excess is in the earnings themselves, with profit shares (relative to GNP) and corporate profitability (returns on invested capital) tending to be near or above historic highs around the world.

Big picture analysis of this phenomenon might include an observation that globalisation has pressured labour's share of the cake, with the threat or fact of relocation reducing unit labour costs. Alternatively, a segment analysis would note that resource companies are enjoying high commodity prices (China, India etc), that banks have taken more balance sheet (and contingent!) risk than ever, and that consumer companies sell to carelessly funded, ever greedier hordes. Our focus is on individual companies, and anomalously low (or high) profits can indicate interesting opportunities.

As the table indicates, the stock market rates BMW as less valuable (relative to sales) than Volkswagen and FIAT (not to mention Mercedes, Toyota and of course Porsche!), and we have recently invested 3% of the Fund in BMW in anticipation of an earnings recovery. In late September, management announced plans to address BMW's surprisingly modest profitability. The targeted savings of Eu4-6 billion seem large compared to current profits in the automotive business of under Eu3.5 billion. However, with around Eu35 billion of purchasing volumes, and surveys showing BMW holding the dubious honour of being the suppliers' favourite, the targeted savings should be seen in that context. Also, Mercedes-Benz recently confirmed that they had cut Eu7 billion of costs – mostly in purchasing – in the last 3-4 years! It is worth noting that BMW's planned cost savings do not envisage employment cuts: the company plans to improve productivity steadily by continuing volume growth *without* net additions to production staff.

Indeed, in recent years, BMW has had great success with volume growth (unit sales have tripled since the early 1990s to be 1.4 million cars this year), and sales have grown from around Eu33 billion in 2001 to Eu53 billion this year; but this has coincided with falling profitability (EBIT/sales has come from over 8% in 2001 to under 6% at times this year). This is partly

Selected car company financial metrics (2007 est)

	SALES Eu bn	EBIT* Eu bn	EBIT/SALES %	EV**/SALES %	MARKET CAP Eu bn
BMW	53	3.2	6	39	30
Daimler***	90	7.8	9	65	77
Porsche	7	2.2	31	153	28
Volkswagen	102	5.3	5	42	57
FIAT	57	2.8	5	48	27
Toyota	147	15.0	10	85	149

* "Earnings before interest and tax" ie. operating profits for the industrial (non-finance) business
** Enterprise value ie. market capitalisation adjusted for cash/debt and financing businesses
*** Mostly Mercedes-Benz now that the Chrysler business has been largely sold

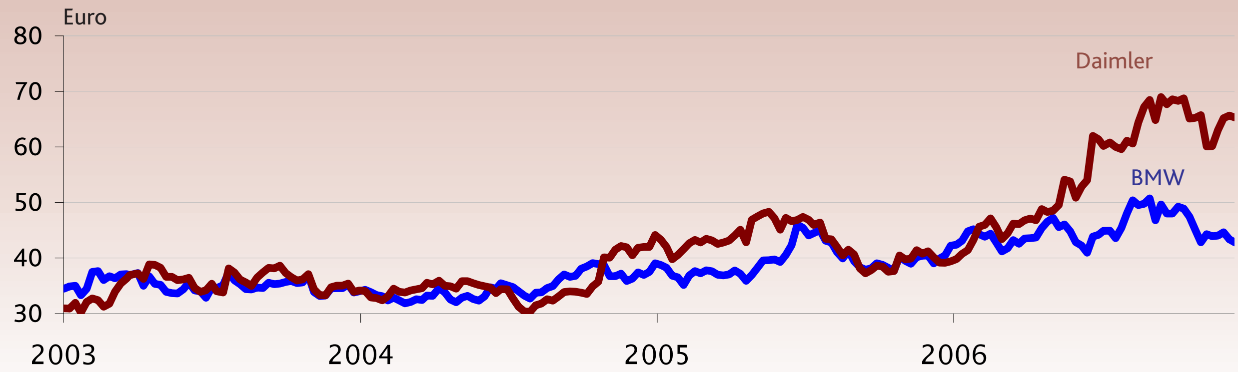
Source: Bloomberg, JPMorgan and other stockbroker estimates explained by BMW's great selling success in the US, with its euro cost base hurting profits (the US dollar has been weakening versus euro for most of this decade). However, in addition, BMW is outspending its competitors in both R&D and capital expenditures to ensure steady product innovations: these efforts should allow BMW to hold its price points in the coming years. In an era of increasing regulatory and customer focus on the environmental aspect of cars, BMW seems well ahead of its German peers. Five innovations which will appear in Mini and 1/3/5 Series models over the next 12-24 months are: i. electric power steering (replacing the "always on" hydraulic system), ii. electric water pump, iii. start-stop function (car turns itself off at the lights or sitting in traffic, and starts instantly at the touch of the accelerator), iv. brake energy recovery (ie. a micro "hybrid" system), and v. variable air intake on the water cooler. These together should reduce fuel consumption and CO_2 emissions by **12-20%**!

Today it still seems easier to charge customers for an extra 20hp than for the sort of innovations listed above – and indeed a key competitor to the BMW 3 series has released a more powerful offering of its historically underpowered vehicle, without BMW-style "environmental" innovations. But surely the groundswell is coming – Prius sales are one indicator – and barbecue discussions will soon include cars' efficiency/emission levels as well as their engine size. When large engine car companies are forced to defend their profligacy, BMW will have already positioned itself as the "powerful but efficient" car company. The banner label they are using is "Efficient Dynamics" (this was everywhere at the Frankfurt Motor Show), and that slogan actually stands for considerable past expenditure to position the product (and brand) ahead of time. And in case we get lost in the engineering pleasures of these autos, let's remember that above all these expensive German cars are great consumer brands, and they are not earning anything like a "great brand" return – especially in BMW's case.

Risks to the case probably centre around further weakness in the US dollar; BMW is increasing US production (and sourcing where possible) to create a "natural" hedge for the business. Additionally, we are concerned about a weaker US consumer – indeed that (and the currency) prompted our re-initiation of a short position in Porsche during the quarter – this worked for a while but in recent weeks Porsche shares have leapt higher.

At the margin, we have been wrong-footed by the market of late. However, the Fund's investments hold considerable promise, as well as the (medium- term) virtue of being outside the very hot (mining, steel etc) areas of the moment. The currency position has changed little in recent months with around 29% of the Fund held in, or hedged into, the A$.

BMW versus Daimler Stock Price (October 2003-2007)



Source: Bloomberg

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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