PLATINUM EUROPEAN FUND

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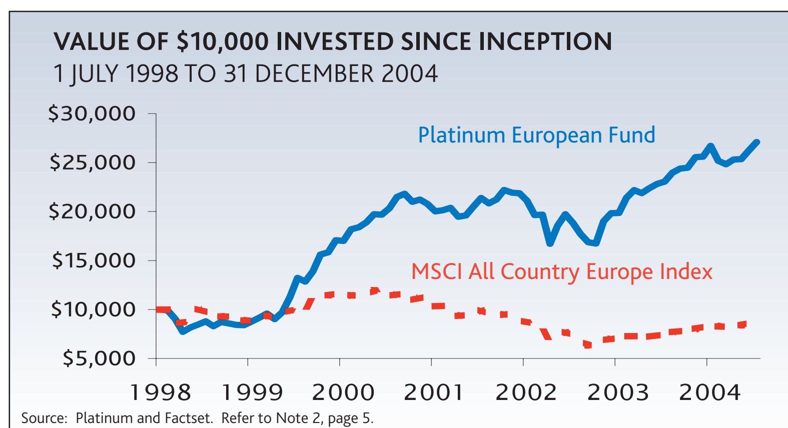
PERFORMANCE

European stock markets moved broadly higher in the last quarter of calendar 2004, by 6% in aggregate. Only a dozen companies (among the largest 500) had meaningful share price declines (11%-26% down), while about 100 saw share price rises of 15% and more. Notably strong areas were the UK pub stocks (up nearly 40%) where consolidation appears to be offsetting the lack of volume growth, while Greece (+20%) and Spain (+13%) were the best of the individual markets. Telecoms performed well, as did transport (again). The A$ moved down 1-2% against most European currencies, leaving the MSCI Europe measured in A$ +7% for the quarter, and +16% for the whole of 2004.

The Platinum European Fund was +7% for the quarter, and +17% for the year - trivially different from the performance of the market. This similar outcome is surprising (and frustrating!) given the totally different compositions of the Fund and the European market. The Fund, for example, has been typically around 80% invested and 7% short through the year (66%-75% net invested), while the "market" is by definition 100% invested. Second, the Platinum European Fund has tended to have 33-35% invested in Germany, and about zero in the UK; the MSCI is 10% Germany and 35% UK! Finally, we have had 20-36% exposure to the A$, and no pounds Sterling, while the MSCI Europe obviously has no A$ and is over one third exposed to Sterling. Perhaps - despite all this - the undifferentiated outcome is coincidence, but it is interesting that it has occurred in a year when the measured performance of "good" versus "bad" stocks has shown unusually low variance, and when the actual range of "high" versus



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

"low" P/E ratio stocks is becoming so narrow that the categories are merging. We suspect this phenomena is linked to the generally high level of liquidity around the world (though the failure of this "excess liquidity" to show up in reported inflation rates makes this effect awkward to analyse).

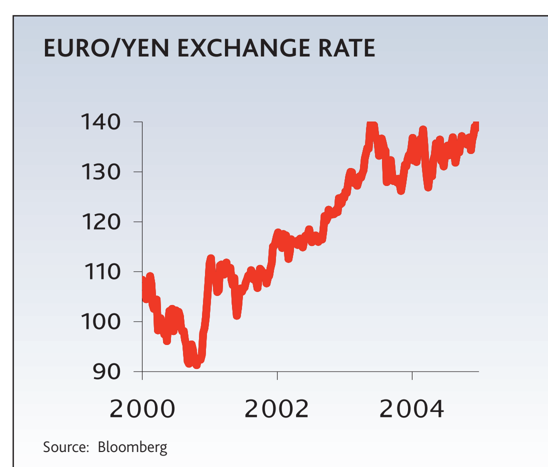
The year's 12% gain for the European markets (in local currencies - the 16% A$ performance is helped by the fall of the A$ against European currencies over the year) was a better outcome than we anticipated 12 months ago, when we commented that with the benefits of anticipated labour market reforms being "largely offset by the depredations of the ever cheapening US$, ... valuations look fair … rather than cheap". The main surprise over the year, as mentioned en route, has been the improvement in aggregate profitability of European companies, the steadily strengthening euro notwithstanding. Aggregate profit growth for 2004 versus 2003 has probably been about 16%, leaving markets slightly cheaper at the end of the year than at the start, measured by simple price to earnings ratios. A helpful secondary factor has been the reduction of debt, and the rearrangement of actual debt, as the generosity of the corporate bond market has been used to refinance (ie. lengthen maturities at modest interest rates) many companies' balance sheets.

COMMENTARY

Euro-yen perhaps the real story in currency markets - is a reversal nigh?

While much attention has been focussed on the "weak US$", the flip side is the relative strength of the other traded currencies around the world. Non-Japan Asian countries - most controversially China - tend to manage their currencies to be steady (or in some cases modestly strengthening) against the US$. Japanese authorities no doubt had their Asian competitors in mind as they undertook currency intervention (buying US$, selling yen) on an unprecedented scale in 2004. This interference slowed the yen's rise against the US$. The "commodity currencies" (A$, Canadian dollar, South African rand) have ebbed and flowed with perceptions of Chinese economic growth, but overall have been generally steady against the yen, stronger than the US$, and weaker than the Europeans.

Interestingly, while the currencies of the non-EU Europeans were strong versus the euro in 2001/02, even they have fallen by the wayside as the euro itself has - improbably given the region's low GDP growth - surged relentlessly higher against all comers. For many European companies the key exchange rate is that between Europe and Asia, especially Japan. As the chart below shows, the euro has appreciated dramatically - and persistently - against the yen to give the Japanese competitors a considerable advantage. 40% in four years is a problem for German machinery and robotics companies, for example, competing with Japanese players for the big new orders in China, India and elsewhere.



Curiously, the official commentary in Europe has focused on the "weak US$" part of the equation (and tended to accept that the desperate financial position of the US precludes a reversal), rather than the "strong euro" part. When acknowledging it at all, the European

Central Bank has described euro strength as a helpful offset to the risks of (oil-induced) inflation in Europe (a redundant concern, one would have thought, given the scarcity of pricing power in most industries - and also of labour).

While we tend to doubt that the US$ will be much stronger against the euro any time soon, we are wary of assuming that euro-yen (euro-Asia generally) will continue to appreciate, and regard the current level of Y140/euro as pretty stretched. In fact the prospect of a reversal looks to be sufficiently probable that the European semiconductor companies, for example, may be interesting this next year or two after a tough run against the Koreans and Japanese. European consumer products companies - especially at the luxury end - could well benefit from a weaker euro (versus Asian currencies), as Asian purchasing power increases for German sports cars, French handbags etc.

Company meetings in Europe - currency, employees, and profitability

On a company visit trip through Germany, Switzerland, Paris etc in early December, we were struck by the lack of despair about the strong currency (in stark contrast to the last peak in the Deutsche mark, in 1995, where company meetings routinely included a plaintive lament - by the executives - about the horror of a strong currency). A few things could be concluded about today's near silence on the currency. The US trade position and consumer debt addiction is regarded with disgust but hopeless acceptance in Europe, so to the extent that Europeans are looking at US$-euro, they see a persistent trend, and little point arguing against it. And as they gaze eastward, the company executives are pragmatic about Asian mercantilism, so that in many cases the external competitiveness shock of the currency is being used to hasten internal company reform and reorganisation.

Company by company, the German labour market reform continues. While Siemens and other giants make the news with their more-hours-for-no-more-pay deals, we saw several smaller manufacturers who are all successfully concluding similar arrangements. Not only are weekly hours increased to around 41, but flexible working hour "accounts" are being used, so that for instance a production schedule is made available to employees for the coming weeks: they see that they will be busy one week but quiet in another, and can work an extra couple of hours each day in the busy week, in return for a day off in the quiet week. Wage costs unchanged, but labour capacity optimised to manufacturing volume - a far better situation than people working paid overtime one week only to be at work but idle the next. Another study shows that the number of staff away sick in 2004 shrank to the lowest level since 1970 - pragmatism triumphs over rorts when a few hundred million newcomers enter the labour market.

Increasingly companies are sending high volume, simple parts of the manufacturing process out to Eastern Europe (and further east), while doing short run products, and complex parts, as well as final assembly, in Germany itself. Thus semi-finished goods come into the manufacturing process from other countries: a German Economic Institute study suggests that over 40% of German exports are today manufactured abroad, compared with 27% in 1991. It is noteworthy that this same (industry-funded) body reckons the EU accession countries - Poland, Hungry et al - will add significantly to German GDP in 2005 and 2006 - a contrast to some fears that the Eastern Europeans will damage the economy by taking German jobs.

These labour reforms, combined with the good sales levels implied by the strong global economy, have resulted in the high (relative to history) profitability of European companies in aggregate. In the end it is perhaps this that explains the muted complaints about the strength of the euro. Even so, we were intrigued when visiting a specialty chemical plant, in

Switzerland, to find out that it was the "most profitable" plant of the company (who have 50 or so facilities around the world). Given the high level of automation ("capital is cheap in Switzerland, labour is very expensive" proclaimed our guides), one suspects that this "highest profitability" is profit relative to sales, rather than profit relative to capital employed, but it is noteworthy nonetheless.

OUTLOOK

Extended "economic cycle", valuations probably fair

Corporate profitability and cash generation is strong, and a cycle of capital expenditure for capacity expansion seems probable. It is hard to see how western world labour will manage to claw back a significant part of corporate profitability in the near term, so industrial GDP may outpace consumption for a time, and profits could remain at these high levels. With this in mind, and especially if a significant reversal in euro/yen takes some pressure of prices, the stocks we hold in Europe look promising. The aspect we find troubling (and the basic reason for our 18% cash holding at 31 December) is the widespread optimism for stocks among fund managers and individual investors. This complacent consensus, especially when accompanied by company executives selling stock (currently at the high levels of 2000 in the US), often precedes a set back.

The Platinum European Fund was 6% short for a net exposure of 75% to European shares at the end of December 2004. The currency exposure was hedged 20% back into the A$, and we had no exposure to the pound Sterling. We are sufficiently concerned about the extent of market long positions in the euro that we may switch some of our 59% euro exposure to peripheral European currencies such as the Norwegian krone (and/or increase the A$ hedge again).

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY (% OF ASSETS)

CATEGORIES	EXAMPLES OF STOCK	DEC 2004	SEP 2004
CONSUMER/RETAIL	ADIDAS, HENKEL, HORNBACH, DOUGLAS	**16%**	**13%**
CHEMICALS/MATERIALS	LINDE, MERCK KGaA	**15%**	**12%**
CAPITAL GOODS	OCE, SCHINDLER, SIEMENS	**14%**	**11%**
MISCELLANEOUS SERVICES	DEUTSCHE POST, SGS SURVEILLANCE	**12%**	**12%**
PHARMACEUTICAL/BIOTECHNOLOGY	NOVOZYMES, GLAXOSMITHKLINE	**11%**	**13%**
FINANCIALS	CREDIT AGRICOLE, NORDEA	**8%**	**8%**
TECH/MEDIA	INFINEON TECH	**6%**	**7%**

Source: Platinum

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

(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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