PLATINUM EUROPEAN FUND

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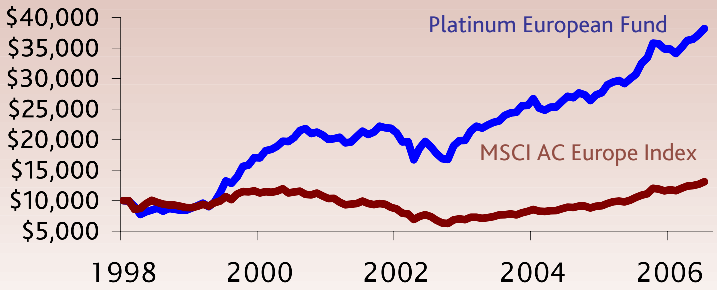
PERFORMANCE

Brushing off a minor setback in November, the European equity markets drifted higher in the last quarter of 2006. Renewed weakness in the US$ (admittedly modest, and mainly versus the euro not the yen thus far) is one of few straws in the wind to suggest the markets are tiring. Another is record levels of "insider sales" (ie. net sales of shares by company directors and officers) on both sides of the Atlantic. Similarly the start of large scale share issues by some savvy European companies indicates their perspective on the market. These blemishes aside, however, the fourth year of the bull market has been broad in nature.

Strong areas of the market for the quarter were steel (+24%), real estate (+20%), and travel and leisure (+17%). Only the pharmaceuticals sector (-4%) fell, confirming investors' appetite for risk. In native currencies, the European markets added 7% for the three months to December, and with the A$ marginally firmer against the euro etc, the MSCI Europe A$ return was 5.8%. The Platinum European Fund gained 5.3% for the three months.

Over calendar 2006, the Fund (+24%) has kept pace with the market (+25%), despite its more cautious position: the Fund has tended to be 70-75% net invested over the year. Thus while we have incorrectly positioned the overall portfolio for such a strong market, our stock selection has partly offset the error.

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 31 DECEMBER 2006



Source: Platinum and Factset. Refer to Note 2, page 6.

CHANGES TO THE PORTFOLIO

We have continued to reduce exposure to some stocks where prices have run very high, but the main change is the addition of several new names in one key lagging area of the market. The portfolio now has 11% in the European **media** sector. This comprises French and German TV companies, one of the multi-national advertising groups, and also magazine and radio companies based in France. As the chart illustrates, the media stocks in Europe have been one of the few poor relations in this broad bull market.

The missing vim relates to several things. Firstly, the actual advertising expenditure upswing has been modest in recent years, strong economies, record corporate profitability and global branding efforts notwithstanding. Second, uncertainty over the impact of new technology on delivery mechanisms (eg. TV over the internet etc) and audience fragmentation have made traditional TV models uncertain. And third, a general presumption that the internet will supplant print (and other) media - even if few can articulate *how* this will happen - has caused investors to be wary of the industry.

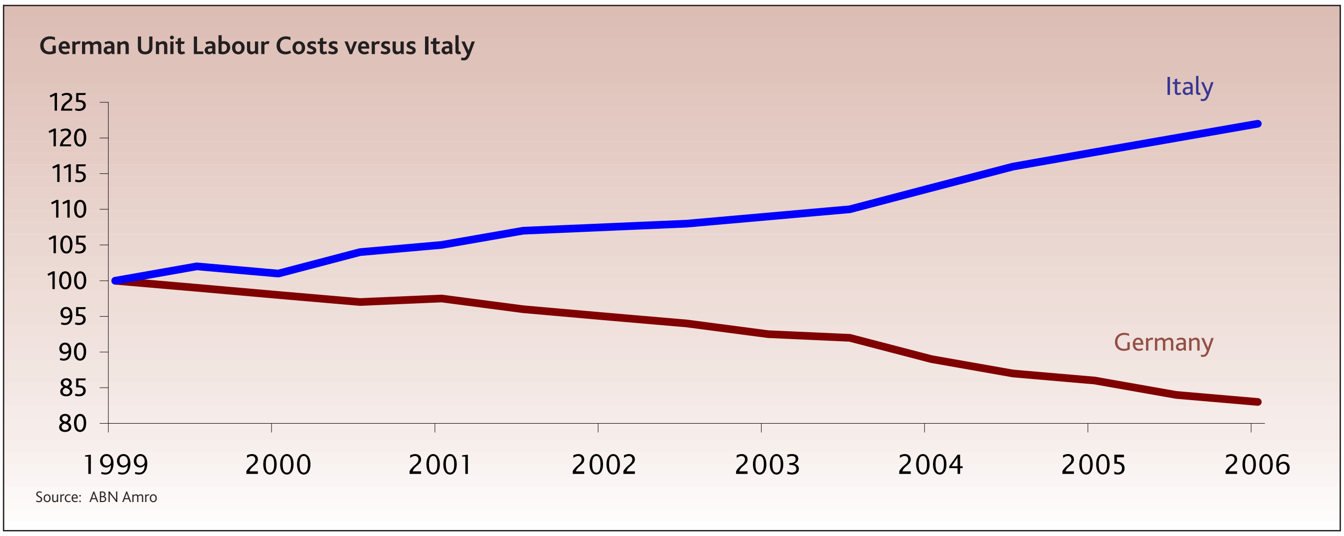
We are sanguine, leaning towards optimism, on the general advertising expenditure cycle: this should improve in the next year or two, especially in France where January sees the commencement of the era of TV advertising by retailers (French law has banned such communication hitherto). Incidentally, worry that the French radio businesses will be the losers from this regulatory change has pushed their valuations down to such low levels that we have invested in the leading player.

And on the more important structural change issues outlined above, we have tried to find areas where the impact is more than discounted already, or where it may not matter. The best example of this seems to be one of the global advertising groups, which is almost indifferent to the competition between media, and moreover is a beneficiary (through more and higher advisory fees) of the strategic complexity of the internet, and a changing communication landscape generally.

Elsewhere we have added another name in the pulp and paper area, and the portfolio has a 9% exposure to this theme. Improving pulp prices, and high capacity utilisation rates are, for the moment, being offset by the strength of the euro versus the US dollar.

Europe: media relative to market

Source: Factset



COMMENTARY

The mighty German economy!

One year ago we reported that German central banking figures (ie. German representatives on the European Central Bank board) were threatening that Italy must engineer *relative disinflation* in its economy over the coming years to reverse the problem implicit in the chart above.

Last December's report showed the collapse in the Italian current account from handsome surpluses in the mid-1990s, to persistent and worsening deficits in recent years. In general we presented the case from the "uncompetitive Italy" perspective, and we noted (again!) how in a monetary union (where there is no functioning political union) that interest rate settings will inevitably be inappropriate for some countries at various times.

Today it is fashionable (and seemingly accurate) to discuss the situation from the "hypercompetitive Germany" point of view. Germany is once again supreme in European industrial output, and indeed remains the world's largest exporter of goods (perhaps a surprising position in a world pre-occupied with the dramatic expansion of China's exports, or indeed with the industrial giants of Japan and the US). Astonishingly, there are now anecdotes of German companies shutting down Eastern European plants in order to ***bring production back "home"*** to Germany: such is the wage inflation, and relatively low productivity, of the countries to Germany's east (with the notable exception of Poland).

In France, populist politicians are suggesting - and newspaper editorials are claiming - that Germany is "stealing French jobs"! In the Netherlands and elsewhere similar unease is emerging. The point of this is that the *disequilibrium* in Europe has become "strong Germany" (rather than "weak Italy"). And the reality of monetary union is that the consequences of this are several years of relatively high inflation in Germany in preference to deflation and recession in the Mediterranean countries. Today's tensions in the European monetary project reflect the fact that Germans do not like the prospect of inflation - the 1920s are gone but not forgotten, and the great fear Germans had in swapping their Deutschemark for euros was the loss of "internal currency stability".

But such give and take is what monetary union implies and requires, and our best bet is that Germany will have some inflation over the rest of the noughties - probably not too much, but more than the rest of Europe. With this in mind, one of the few dull areas of the robust German stock market, namely the retailers, may be much more interesting in the coming years. The best supermarket operators (Aldi etc) are unlisted, but we have a good position in one of the strongest hardware store ("DIY") chains, namely the Hornbach group. Recent sales data from the company (and a *tripling* of third quarter profits) suggest that both business volumes and prices are improving.

Visits to European companies in China

In October we visited the Chinese operations of a number of European companies, focusing on those where China accounts for a significant part of either today's business, or tomorrow's growth. We can report that wage growth is indeed running at 8-15% pa, that pollution is even worse than imagined, and that there is an ongoing obsession with low prices. However, as usual, some of the company-specific issues were more instructive:

Electricity transmission company ABB of Switzerland highlighted how China is at the "cutting edge" in more and more industries - a reminder that *the learning is in the doing*. Due to its hydro and coal resources being far from the coastal region of greatest electricity usage, China is pioneering electricity transmission projects at <u>higher voltages, over greater distances, than anywhere in the world</u>. In fact the ABB China boss pointed out that they are working on a single line which alone will transmit Switzerland's entire electricity generation capacity! And thus while in the physics departments of European universities electricity transmission is a low priority, in Beijing universities it is a glamorous and vital area of study.

The retailer Carrefour, based in France, has been operating in China for 10 years and has 80 stores. The differentiating feature of Chinese retail is that hypermarkets (ie. supermarkets with a large non-food offer included) are succeeding in the urban/suburban areas where a western city would be served by supermarkets. In China, the "catchment" areas of the shops are defined by a radius of 10 minutes on a bike! Despite relentless car traffic in China, 91% of Carrefour China shoppers come by bike or on foot. And therefore they come often. Competition is intense, and so sales growth in existing stores is low (**every** catchment area, **every year**, is seeing a new hypermarket competitor, at the moment), but the company can open up to twenty new stores per annum to grow, and profitability is solid.

For companies who rely in the west on service and maintenance profits to supplement low margin initial equipment sales, such an approach in China is fraught with difficulty. Whether it is elevators or forklift trucks, Chinese customers will pay only just above standard hourly labour rates for service, so that the five year service contract of the west is not a route to profit if your initial price is insufficient.

And one evening we were taken on a tour of some premises selling Pernod Ricard's Scotches, Cognacs etc, which was eye-opening indeed. The personnel-intensive business model astonished us, but we were left with an impression of a fantastic growth opportunity for a company such as this which has put in the staff at the coal face, rather than merely relying on high level sporting event sponsorships etc.

Russian risks

The stock market reaction was muted when it became clear in recent weeks that state-controlled Gazprom of Russia would indeed relieve Shell of half its interest in the vast "Sakhalin II" hydrocarbons project. The barely perceptible fall in Shell's share price reflected (a) that the market has expected something of this nature anyway, and (b) (optimistic?) hopes that Gazprom will pay a reasonable price in this "deal".

Over several months various pressures have been brought to bear(!) on Shell, culminating with a direct threat a few weeks ago by the Ministry of Environment to withdraw Shell's operating licence for alleged environmental violations. Shell has been forced into a negotiation it does not want, with few strong cards to play.

The main point for us - and you may recall that the Trust Deed allows the European Fund to invest east as far as the Urals! - is that with emerging markets priced with growth premiums rather than risk discounts, Russian investments need a pretty wide margin of safety.

To highlight the problems created by uncertainty over title and property rights generally, consider the situation in the pulp and paper industry. Today the key dynamic in that market is China's growing demand for pulp - there is plenty of paper-making capacity being installed in China, but there are few spare trees. At the moment one million tonnes of pulp are shipped annually from Brazil to China. But Brazil's strong currency, and high ocean freight rates suggest that (Eastern) Russia is the logical location for new pulping capacity to feed Chinese demand. Russia has vast forests, cheap labour, cheap energy and close proximity to the market. The most "recently" installed capacity in Russia is over thirty years old and yet has the lowest operating costs of any pulp line we are aware of around the world. And yet *no new pulp lines are being installed*, and in fact the largest local producer has recently been sold - for what appears to be an astonishingly low price - to International Paper of the US.

The point is that even the native Russians are turning their back on a sound investment opportunity, such is the uncertainty over title - surely among the most basic building blocks of the capitalist system. Indeed, the consequences are seen elsewhere, such as in London where now *one in five* of the very high-end property sales is to a Russian buyer. Whatever next?! What a surprising world, where someone flogs a growth business in Russia for a quarter of its value, to buy property in London at valuations seen only in 1980s Tokyo …

The Platinum European Fund has a very limited exposure to Russia (Shell being the main one), and even less to London property!

Invested Position

At the end of 2006, the Fund is 86% long, and 11% short for a net 75% exposure to European markets. In addition, a modest put option position (on the French CAC and German DAX indices) was established at good prices, so that on a delta-adjusted basis the Fund's exposure is 69%. Currency positioning is little changed with 37% hedged back into the A$.

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	DEC 2006	SEP 2006
TECH/MEDIA	INFINEON, ALCATEL, ERICSSON	26%	20%
CHEMICALS/MATERIALS	UPM, SHELL	18%	19%
CAPITAL GOODS	SIEMENS, RIETER, METSO	17%	18%
CONSUMER/RETAIL	HENKEL, HORNBACH, CARREFOUR	14%	13%
FINANCIALS	CREDIT AGRICOLE	5%	6%
PHARMACEUTICAL/BIOTECHNOLOGY	NOVOZYMES, EUROFINS	4%	4%
MISCELLANEOUS SERVICES	GFK	2%	3%

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.