PLATINUM INTERNATIONAL FUND

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PERFORMANCE

In their native currencies, the large markets had a vapid quarter, making no headway and trading over a narrow range. The emerging markets were the precise opposite, with the most obscure such as Cairo or Karachi achieving fantastic returns. Overall, the MSCI rose in home currencies by only 0.2%, translating to a gain of 0.4% in Australian dollars.

By industry category, energy remained the markets favourite leaving a very mixed bag in its trail. On a twelve month view, those parts of the market that benefit most from strong growth such as energy, materials and industrials lead by a big margin, with the rest of the field well behind. The conspicuous exception was utilities, which has been strong from an oversold base. Information technology was the one sector to record a decline year on year.

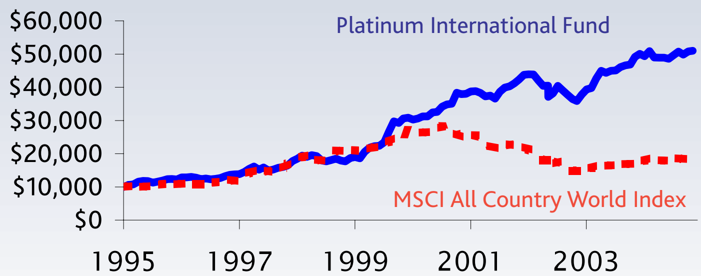
At present, the Fund is behaving somewhat like a stranded whale. Performance is very sluggish as some of the purchases of the last six to nine months are in aggregate still around our entry levels, while strong segments such as India and Korea are being offset by losses in technology and biotechnology. The recent love for risk seems to be the main explanation for this phenomenon: valuations for quality price setters (companies with unique positions with good brands or technological leadership) are being heavily de-rated to multi-year lows, while the valuation attributed to lesser companies is rising. This is clearly irritating in the short term but as interest rates begin to rise, this love for risk is likely to subside! It may be helpful to recall

MSCI WORLD INDEX INDUSTRY BREAKDOWN (A$)

SECTOR PERFORMANCE	QUARTER	1 YEAR
ENERGY	12.7%	34.4%
MATERIALS	2.8%	17.7%
UTILITIES	2.3%	18.5%
CONSUMER STAPLES	1.7%	5.8%
INDUSTRIALS	1.2%	14.7%
HEALTH CARE	-0.2%	3.6%
CONSUMER DISCRETIONARY	-2.8%	5.6%
FINANCIALS	-3.2%	5.5%
TELECOMMUNICATIONS	-4.7%	7.4%
INFORMATION TECHNOLOGY	-4.9%	-6.3%

Source: Bloomberg

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 MAY 1995 TO 31 MARCH 2005



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

that when acquiring new holdings, we tend to take a 3 to 5 year view and so long as the company's underlying business is performing as we had anticipated, we will tend to use price weakness to add to positions. We regard this present market aberration as providing an interesting opportunity.

Even so we are disappointed with the Fund's performance which equalled the MSCI this quarter and is trailing over the last 12 months by 5.7%.

CURRENCY

We may be entering another period of turbulence. The reversal of carry trades (ie. borrowing low interest cost and devaluing US dollars to fund leveraged investments) seems to be buoying the US dollar. On fundamental grounds, we have difficulty in shifting our negative stance on the US dollar and thus remain principally hedged into yen and euros. This position will be kept under close surveillance.

SHORTING

At last, some relief. The various financial stocks that we have sold short are at last responding to bad news. Most of the positions are in companies that will suffer as short term funding costs rise. Superficially they look cheap but on account of their vulnerability to a steepening yield curve, many will fail to meet market earnings expectations. In addition, revelations about phoney insurance underwriting is starting to work for our insurance company shorts.

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS

REGION	MAR 2005	DEC 2004
WESTERN EUROPE	29%	30%
JAPAN	28%	28%
NORTH AMERICA	17%	17%
EMERGING MARKETS	13%	15%
AUSTRALIA	0%	0%
CASH	13%	10%
SHORTS	28%	26%

Source: Platinum

Clients will know that we have been keen protagonists of both India and Korea but as excitement built to a crescendo in March, we reduced and consolidated our positions in those markets. Out went highly successful holdings like INI steel, Korea Electric Power, Jaiprakash (Indian civil engineering and hydro power) and some banks, while positions in ITC (consumer products) and NTPC (power generation) were increased.

In Japan we sold Sky Perfect because of disappointment with the rate of cable subscription growth, Ajinomoto on account of disappointing pull through from Lycine prices, and Nippon Sheet Glass after a very strong share price advance. We also added widely to our existing holdings, particularly in financials and introduced Mitsubishi Heavy Industries and IHI who should see a further improvement in their operations and benefits from greater investment spending.

In North America we added to Noranda, Mosaic, Newscorp, Foundry Networks, and Pfizer and Merck, as the price of each had dipped throughout the quarter. There was very good news from Noranda in that the planned trade sale by its holding company Brascan was shelved and Noranda is now acquiring the remaining outstanding shares in Falconbridge Nickel that it does not own. This is a transformational deal that substantially increases the company's worth and in an environment where the large cap miners are no longer cheap, offers investors a large cap alternative which is about to benefit from the tightening supply in zinc and aluminium.

In Europe, many of the existing holdings were increased while Merck KGaA was reduced after considerable strength on the back of its liquid crystals leadership and success with Erbitux (anti-cancer drug). Ericsson was re-introduced after some price weakness as we remain enthusiastic about telco capital spending and the company's unsung strength in Internet Protocol (IP) Ethernet multiplexing.

COMMENTARY

As one writes these quarterlies, one is made very conscious of the fads that grip the financial markets over time. One moment it's technology and its endless possibilities, another may be the threat of deflation or inflation, or as of now, the focus on China as the emerging workshop of the world. In terms of George Soros' concept of “reflexivity”, as one cannot know in advance what will be the strength of the markets embrace of a new idea, it is prudent to let events unfold in their own time rather than unflinchingly defending a standpoint.

Where is this leading? Well, we have several underlying trends in mind that guide us in developing investment themes and influence the type of companies we favour. On account of “reflexivity”, however, we are unlikely to bet the house on these views but they do contribute to what might be termed, directional stability. At present we have three underlying themes: we believe that the high level of debt in the Anglo-Saxon countries will be ultimately deflationary; that we are in the early stages of a prolonged capital spending cycle world-wide; and that Asian markets are generally more interesting than western markets.

The infusion of liquidity by the Federal Reserve Board and the reciprocal currency intervention by many central banks in Asia, have worked relatively well to rejuvenate activity but at the cost of global imbalances. US consumer spending has responded to tax breaks and also to the lower cost of debt. As this and other influences have washed into property values, there have been further rounds of leverage that have spurred on spending and built consumer confidence. At the same time, in their search for yield, those with savings are increasingly placing their hopes in the miraculous activities of some 8,000 hedge managers who will somehow each provide them with superior returns at no extra risk. (For this unusual offer, an estimated US$25 billion of fees were extracted in 2004!

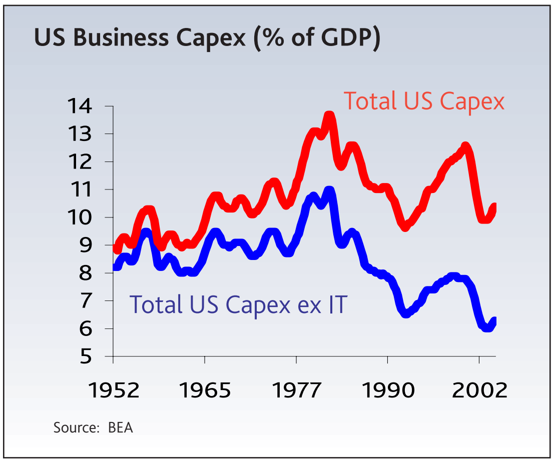
BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY (% OF ASSETS)

CATEGORIES	EXAMPLES OF STOCKS	MAR 2005	DEC 2004
CYCLICALS/MANUFACTURING	TOYOTA MOTOR, SCHINLDER, SIEMENS, LINDE, OCE	**27%**	**28%**
FINANCIALS	CREDIT AGRICOLE, MITSUBISHI TOKYO FINANCIAL, MITSUI SUMITOMO INSURANCE	**15%**	**16%**
TECHNOLOGY/HARDWARE	AGERE, INFINEON TECH, SAMSUNG, AMD, SUN MICROSYSTEMS	**8%**	**8%**
RETAIL/SERVICES/LOGISTICS	CARREFOUR, DEUTSCHE POST, HORNBACH, MITSUBISHI CORP	**7%**	**6%**
MEDICAL	TAKEDA, SCHERING, MERCK KGaA, GLAXOSMITHKLINE	**7%**	**8%**
CONSUMER BRANDS	HENKEL, ADIDAS SOLOMON, LOTTE	**6%**	**8%**
GOLD AND OTHER RESOURCES	SHELL, BARRICK GOLD, NEWMONT MINING, NORANDA	**6%**	**6%**
SOFTWARE/MEDIA	SEOUL BROADCASTING, NEWSCORP	**6%**	**6%**
TELECOMS	ALCATEL, NTT DOCOMO	**5%**	**4%**

Source: Platinum

Hence too, the excited chatter in the art world about a new breed of moneyed art aficionados.) Hedge fund activity in turn is influencing the relative pricing of bonds and equities, both in terms of developing versus developed markets and within markets: for example, there is a clear narrowing in valuations between fast-growing businesses and dull price-takers to extreme levels, seen from a 70 year perspective. We believe that this debt frenzy entrains a circular motion that ultimately will be buried under its own weight. Higher interest rates will gradually reveal the full extent of leverage and of carry trades and this will result in credit impairment and loss. The deflationary force alluded to comes from the ultimate need to **retard consumption**, which is usually forced rather than chosen, and arises from debt and asset liquidation. If you have difficulty in envisaging this consider that Japanese property prices have been declining for 14 years and are only now stabilising. The low rating of many financial shares in the US and UK does, however, suggest that this view is shared by the market but we suspect the damage will be more severe than is presently priced into capitalisations.

The second long-term theme, the prospect of a **strong, long capital spending cycle**, stems from the influence of supply-side economics. With concepts like privatisation, user-pay and so-called "shareholder value", there is also a tendency towards short-termism and under-investment. Throughout the 1990s, management faced a constant barrage of advice or rebuke from the fund management industry to sweat their assets and balance sheets. Even the redoubtable Japanese and continental Europeans, who failed to participate in the self-enrichment programme of lazily priced options, nearly succumbed to the siren call as they were humbled by the apparent new paradigm. The bursting of the dot com bubble was their salvation. Today there are innumerable industries suffering from under-investment, ranging from infrastructure to public services to heavy industry. The newspapers here and abroad are crammed with reports of public services short-comings but perhaps the more surprising data relates to the private sector. As you can see from the accompanying chart, expenditure by US businesses on fixed assets, excluding information technology, is at a fifty year low. Some of this is probably structural, in terms of the changing mix of activity in the economy, but nevertheless we draw the conclusion that it is below trend. This same pattern applies to Europe and Japan but the figures are less conspicuous.



This raises the prospect that **growth** in some economies will be **significantly skewed towards capital works and away from the consumer**. We have already seen the spectacular boom in shipbuilding, with tonnages completed in 2003 at record levels and expectations of more to come; order books in mid-2004 for tankers were at a 30 year high of 1,261 vessels, equivalent to 88 million dwt (dead weight tonnes), while container vessel orders stood at 723 vessels, equal to 39 million dwt. Ports (including Liquefied Natural Gas compressing and receiving terminals) and rail are the next big thing, together with the resuscitation of power grids ... and, this is before **core industries which have been spending less than their depreciation** find reason to modernise.

Many economies in Asia will follow the opposite pattern. It is now eight years since foreign lenders pulled the rug from under them, causing devaluations and reduced consumption. Total external debt for "developing Asia[1]" has remained pretty flat at around US$700 billion, while the growth of exports has allowed external debt servicing to nearly halve to 8.9% of total exports, and external financial reserves to more than triple to US$850 billion. With their banks in sound order, local credit is expanding to assist domestic demand, and contrary to the belief of some, we suggest a slowing in the west will not cause a recession in developing Asia. Our view is based on the strong growth of inter-regional trade, highlighted last quarter, and the fact that many of the low cost items exported to the west will not suddenly reverse and may barely slow, given the removal of textile quotas and the like.

Turning to the heavy-weight of the region, Japan. Virtually on the day that General Motors announced further market share loss, and a profit down-grade, which caused the market to ponder its debt rating, Toyota released new SUV models powered by 3.3 litre petrol engines and twin rear-wheel electric motor drives. These all-wheel drive vehicles achieve fuel economy twice that of a standard vehicle in this category. Attractive in an oil-starved world yes, but of far more significance is the revelation of the technical lead the world's number two auto producer now has over all-comers, including the German producers. This, however, is not an isolated example because one can cite similar technical leads by a host of other Japanese companies. Two quarters ago we noted that Japan has increased its research and development spending steadily since the bubble burst and now allocates 3.3% of GDP in this way. We remind clients again that this **commitment to the long term** has a value that is ignored by crude measures such as return on equity or price earnings ratios.

We are convinced that the lingering fear about the Japanese banks is a psychological anchoring mechanism that will impede one from benefiting from the country's emerging bull market. Work done by CLSA suggests that the accumulated loss provisions taken since 1993, together with prior provisions, represent 155% of the current market capitalisations of Japanese banks. Yes, the boom was crazy but with property prices now recovering in core locations, this measure can give a hint of the potential write-backs that some may in due course experience. Note the accompanying chart and the scale of the Japanese provisions compared to the experience of the likes of Thailand and Korea following the 1997/98 bust.

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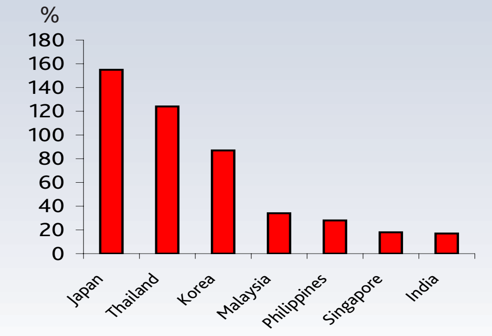
Bank Provisions to Market Cap Ratio



Source: CLSA Asia-Pacific Markets

CONCLUSION

More attention is now being paid to the prospect of further rises of interest rates. This seems to be causing an unwinding of US dollar funded asset plays, the repayment of which is giving support to the US currency, for the moment at least. This may be the beginning of a bottoming of that currency but a lot will depend on the relative economic growth of the principal trading blocks. It is clear though that risk is being given more emphasis which will presumably adversely affect hitherto investor favourites, namely emerging markets, smaller capitalisation companies, and sub-prime debt. This may presage a greater emphasis on high quality, larger, global companies.

[1] Asia accepting Japan, Korea, Singapore and Taiwan

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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