PLATINUM INTERNATIONAL FUND

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PERFORMANCE

An enervating quarter for sure, with fear rearing its crumpled face and allowing imaginations to run riot over what was, could be or should be. The most punished markets in the sell-off were those that had ascended the swiftest, with the plodders exhibiting their practised nonchalance. Fortunately we had become concerned about the uninhibited enthusiasm for the higher risk emerging markets and had reduced holdings and introduced shorts against both the Indian and Korean indices. To our disappointment, the US small cap index and the Russell 2000 index sold off sedately and hence our shorting of these gave us somewhat less protection than we had hoped.

As you will be aware, we have been puzzled by the historically rare experience of the lesser quality and smaller companies being priced at large premiums to their historic ratings and being expensive against large, superior companies. We surmise that the end of the bull-run will be punctuated by small, illiquid companies significantly under-performing the large capitalisation stocks. Notwithstanding our handicap in the shorting stakes, which has suppressed our annual return, the Fund gained 26.7% for the year after a negative quarter of 4.2%. By way of reference, the MSCI rose by 21.1% over the last 12 months and fell by 4.8% in the last three months.

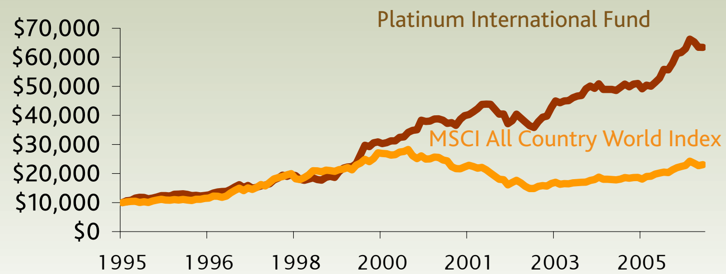
Areas of activity that are sensitive to growth remained investors' favourites, namely, materials, energy, and industrials. Out-of-favour segments were health care, information technology and telecoms. Not surprisingly, it is in these areas that we are now finding the more interesting prospects.

MSCI WORLD INDEX INDUSTRY PERFORMANCE (AUD)

SECTOR	QUARTER	1 YEAR
MATERIALS	-3%	45%
ENERGY	-1%	31%
INDUSTRIALS	-5%	27%
FINANCIALS	-5%	26%
UTILITIES	1%	21%
CONSUMER STAPLES	-1%	17%
CONSUMER DISCRETIONARY	-6%	15%
TELECOMMUNICATIONS	-3%	11%
INFORMATION TECHNOLOGY	-12%	11%
HEALTH CARE	-5%	10%

Source: Factset

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 MAY 1995 TO 30 JUNE 2006



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

CURRENCY

The quarter was characterised by US$ weakness but also accompanied by a sell-off of several emerging market currencies as questions of growth and risk became prevalent. Given the degree of indebtedness of the US, it is interesting that the US$ did not exhibit more strength as these concerns grew and as money was channelled home. Our position was left unchanged, with very little exposure to the US$.

SHORTING

We did some reasonable work in closing some of our emerging market shorts close to the bottom of the decline. However, as alluded to earlier, we were disappointed at the persistent commitment of investors to the smaller stocks in Wall Street. From top to bottom these declined by about 14% where, for example, the S&P 500 index fell by 8%. The only positive observation we can make on a 12 month view regarding short selling, is that at least our instincts (and work) have been right in identifying the weakest market. Compared to other developed markets, the US has risen the least, generally by one quarter to one half of the rises seen in say the UK, Europe or Japan.

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS

REGION	JUN 2006	MAR 2006
JAPAN *	25%	29%
WESTERN EUROPE	24%	25%
NORTH AMERICA	22%	22%
EMERGING MARKETS	13%	14%
AUSTRALIA	0%	1%
CASH	16%	9%
SHORTS	32%	33%

* The Fund also has a 10% short position in Japanese Gov't Bonds

Source: Platinum

Early in the quarter we sold down/out of some long held positions such as Novozymes, Douglas and Metso in Europe; Engineers India and ITC in India; and Lotte Confectionery and Kangwon Land in Korea. In Japan we exited the last of Canon, Nintendo and Dai Nippon Printing, and reduced the housing holdings Sekisui, Daiwa House and JS Group.

As the sell-off steepened we were able to re-establish holdings in economically sensitive companies like JGC (hydrocarbon and petro-chemical plant builder), Yokogawa Electric (automation controls and IC testing equipment) as well as adding to NEC, Hitachi and Mitsubishi Heavy Industries. These stocks were down by 20% or more as were Alcatel and Ericsson in Europe to which we also added. Given the prospect of the return of pricing power now that the Japanese economy is growing consistently, we have introduced food manufacturers such as Yamazaki Bakery, McDonald's and Ajinomoto whom we believe will produce earning surprises after years of disappointment.

The two significant new additions in North America are Bombardier and El Paso Corp. The former is an interesting amalgam of transportation businesses which has been built by the entrepreneurial founding family from its origin in snowmobiles. Following a path of clever acquisitions, Bombardier has built world leading

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	JUN 2006	MAR 2006
CYCLICALS/MANUFACTURING	TOYOTA INDUSTRIES, SCHINDLER, SIEMENS, INTERNATIONAL PAPER	**27%**	**31%**
FINANCIALS	CREDIT AGRICOLE, SUMITOMO MITSUI INSURANCE, SAMSUNG FIRE & MARINE	**14%**	**15%**
TECHNOLOGY/HARDWARE	INFINEON TECH, SAMSUNG, SUN MICROSYSTEMS	**7%**	**11%**
RETAIL/SERVICES/LOGISTICS	HORNBACH, CARREFOUR	**7%**	**8%**
CONSUMER BRANDS	HENKEL, BEIERSDORF, PERNOD RICARD	**7%**	**7%**
SOFTWARE/MEDIA	NEWS CORP, LIBERTY MEDIA	**7%**	**6%**
GOLD AND OTHER RESOURCES	SHELL, BARRICK GOLD, NEWMONT MINING	**6%**	**5%**
TELECOMS	ALCATEL, SK TELECOM, ERICSSON	**6%**	**5%**
MEDICAL	PFIZER, MERCK & CO	**3%**	**3%**

Source: Platinum

positions in rail, and regional and business aircraft. There have unfortunately been missteps which resulted in a precarious balance sheet and a fall from grace as the once-loved Canadian national champion. Our observation is that the company has rectified its finances and is now being too narrowly classified as a regional Jet manufacturer just as the rail business is about to benefit from both its internal restructuring and renewed investment in rail transport (because of energy costs, pollution and congestion).

El Paso (energy transmission and production) is a similar fallen favourite, having been too close to its Houston neighbour, Enron. The value of its pipeline business is undiminished and now that they have addressed their gas field development strategy, the company is well positioned for continuing tight energy markets.

COMMENTARY

The complacency we alluded to last quarter received a jolt in May as market participants paid greater attention to the rising cost of money and to the actions of the Bank of Japan in rapidly reducing the availability of reserves to that country's banking system. Some may interpret this as merely a passing stock market stumble and take comfort from the many positive features of the current economic landscape.

These features include the broader base of world economic growth; the widespread acceptance of the capitalist model; record levels of corporate profits world-wide; valuations that are compatible with prevailing circumstances and specific investment opportunities that seem to offer growth over the horizon.

We accept these confirmatory observations but do believe the easy drift of the current is now giving way to more turbulence. As usual we prefer to take the less agreeable path and seek out the origin of this contentment.

While all eyes appear to be on the Federal Reserve Board, it is evident that the actions of the Bank of Japan (BoJ) and the ECB are quite as important. The trend of interest rates is unequivocally upward and the rampant escalation of the value of real assets seems to us to be in the process of arrest. Since the 1990s the world has experienced almost consecutive (sequential) episodes of monetary infusion that were designed to cope with the earlier problems (eg. the Japanese asset bubble, the excessive foreign debt owed by Asian countries in the late '90s, the unravelling of the tech boom in 2000 etc). Unlike in earlier times, this force-feeding of money did not result in general inflation initially, partly because of the melting demand in Asia and the former Soviet Union (exacerbated by massive "de-stocking"). This was then followed by the extraordinary supply shock of cheap and plentiful manufactured goods from the likes of China (which for a while looked like a deflationary pulse). <u>These counter forces have now gone</u>. In its place we are seeing the "unmasked" demand for raw materials as former laggards, India, Brazil and Russia et al, helped by foreign investment, experience greater material prosperity as indeed does the rest of the world.

The expression of these injections (of cheap money) was evident in boisterous property markets as well as the hitherto falling risk rating attached to emerging markets. As property has lost its allure, the chase has headed after private equity funds and cunningly sculptured financial structures. These developments fit snugly into the dichotomous world which sees one group consuming excessively and another saving. In general, the savers are willing to hold sovereign-like debt while the consumers rejoice in spicier opportunities. Specifically this can be observed in the massive build-up of derivative activity and the intercession of investment banks to cater to both sides of this SEE-SAW: so-named because one side cannot be satisfied without the other facing elevated risk.

<u>Splicing and dicing is the name of the game</u>. Against seemingly secure income streams that State entities happen to be privatising[1], investment banks have been able to create listed vehicles that cater to all spectrums of the debt market as well as the risk-driven private equity investor. Through the debt markets, they can create a cascade of credit and duration risk[2], that can ensure the solvency of the entity but not without compromising the income security of the equity holders. These entities (REITS, listed infrastructure funds etc) have still to be *stress-tested* because to date they have seen nothing but stable economic conditions and declining interest rates. The reverse can indeed coincide!

This may not trouble you much but consider the balance sheets of six of the top eight investment banks[3]. These show <u>balance sheet footings of some $US3.7 trillion</u>, of which over half are long exotic and short plain vanilla debt. Guessing at the investment banking component for Citigroup and JP Morgan, the top eight may have banking assets approaching $US5 trillion. By way of context this compares with the non-financial debt in the US of $US26 trillion - perhaps 40% of the world total. And recall, in their pure form these are banks <u>without natural deposits</u> and hence are highly vulnerable to the vicissitudes of the price and availability of money (credit). Moreover, in terms of their investment banking attributed equity bases, this presents <u>gearing of over 30 times</u> - not a large margin for error!

Some may dismiss this all as financial evolution and innovation. However, it is the <u>wide-spread nature of this opportunistic activity which should ring alarm bells</u>. Private equity funds have grown exponentially and together with hedge funds may now control assets in excess of $US1.8 trillion. Originally developed to provide finance to risky start-ups and to facilitate management buy-outs, private equity has taken on a world of its own and it is now common for some to off-load investments to yet other private equity funds

1 This again coincides with the current fashion of "consume today, save whenever?" and passing the burden onto future generations rather than taking the politically adverse decision of raising taxes.

2 Luxembourg is much favoured in these opaque structures as it is renowned for facilitating really exotic splicing and dicing whereas the US favours the debtor. The amount of intellectual effort expended on what is the financial equivalent of recombinant engineering is breathtaking but ultimately the risk can only be shifted, not expunged.

3 Goldman Sachs, Morgan Stanley, Lehman, Merrills, Bear Stearns, Barcap.

instead of listing them in open markets: even hedge funds are said to be buying into private equity funds! In other instances natural buyers of long duration assets such as pension funds are at times being outbid by investment bank-led structured entities whose only apparent distinction is their affinity for higher debt leverage (and other people's money - OPM) to the extent that interest payments have been known to be twice that of the operation's gross takings. These activities, together with the frenzied levels of corporate merger and acquisitions (M&A - see the graph on page 3), trumpet a highly mature bull market. If you believe that these are usual financial gambits, we assure you, we are unlikely to sate your cravings for risk!

Should American growth falter, as seems likely from rising cost of funds and the impending resetting of rates on adjustable rate mortgages[4], we believe that global growth can still be satisfactory. Importantly in Asia, the consumer's use of debt is far from alarming. While India has benefited from a consumer credit driven expansion, that process is yet to begin in China and may take up the running as investment perhaps plays a lesser role. The sophisticated exporters of the region; Japan, Korea and Taiwan all look set for further growth even in the face of the deteriorating trend of export prices. Strangely, these have been dropping even in the face of relatively strong volume off-take. This augurs poorly for the exporters' profitability but their domestic economies look healthy.

More generally, we continue to be encouraged by the attractive valuation of <u>quality companies</u> versus their lesser rivals. While this progressive de-rating of quality may portend the general reversion of profits to the mean, it nevertheless <u>offers interesting opportunities on an individual stock basis</u>. Some of our themes such as agriculture and paper may be early in their gestation but we believe they will prove highly prospective. The risk lies in the timing.

[4] According to the Mortgage Bankers Association of America, ARMS now represent 25% of the more than $US8.5 trillion in outstanding loans.

CONCLUSION

In a general sense the risks in markets weigh slightly heavier on us than the opportunities. The recent sell-off reflects the rising cost of capital and the reappraisal of risk. We believe this is a change of trend. However, at this stage it is <u>too early to say that inflation will rise to levels that damage the valuation of equities</u>. Hence, at present we are unclear whether the deflationary burden of excessive debt (by way of higher interest rates impinging on consumption in the Anglo-Saxon countries) will outweigh the upward pressure on prices caused by tight supply and continuing strong growth elsewhere. Either way, in the next few months recorded inflation should reveal the pent-up cost increases of raw materials.

The portfolio is well diversified and we are finding new prospects that will grow under most circumstances and yet are attractively priced. Our subliminal fear is a further general de-rating of risk assets.

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.