PLATINUM INTERNATIONAL FUND

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PERFORMANCE

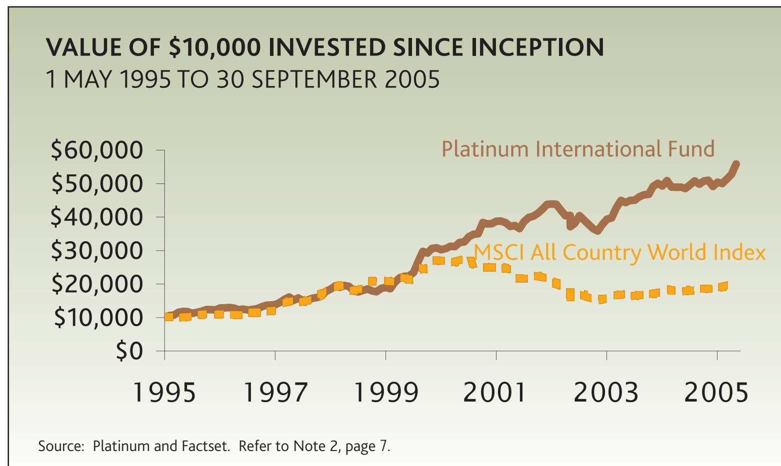
The portfolio has had a nice change of pace this quarter. Several of our long-standing themes have sprung to life, and some of our more recalcitrant holdings have begun to gain traction. Most notably, the Japanese market exploded out of the blocks with a clear shift of investor sentiment in response to the re-election of Junichiro Koizumi and further evidence that the economic recovery is self-sustaining. The same shift in view has helped our German holdings, while the desire to lay-off bets on the gold price has seen our gold shares have one of their biggest quarters for a long time. Countering these positives were relatively few negatives with even our shorts and currencies being largely neutral.

The Fund outperformed the MSCI World Index for the quarter with a return of 11.6% versus 7.4% and for the year it has now performed in line at just over 14%. Again we highlight the problems with short term performance-monitoring to track whether the manager is competent or not. The accompanying tables (below and over) reveal the extraordinary dispersion of returns over the last three and 12 months of important share indices on both a country and industry basis. This serves only to alert readers to the magnitude of opportunities, as the achieved returns of both the MSCI and our portfolio are significantly influenced by weighted exposure.

MSCI WORLD INDEX INDUSTRY PERFORMANCE (AUD)

SECTOR	QUARTER	1 YEAR
ENERGY	19%	43%
MATERIALS	15%	19%
INDUSTRIALS	8%	13%
UTILITIES	7%	27%
FINANCIALS	7%	14%
INFORMATION TECHNOLOGY	6%	9%
CONSUMER STAPLES	6%	13%
TELECOMMUNICATIONS	5%	9%
CONSUMER DISCRETIONARY	4%	7%
HEALTH CARE	4%	9%

Source: Factset



Source: Platinum and Factset. Refer to Note 2, page 7.

MSCI WORLD INDEX COUNTRY PERFORMANCE (AUD)		
COUNTRY	QUARTER	1 YEAR
BRAZIL	37%	81%
KOREA	22%	51%
JAPAN	19%	20%
INDIA	16%	51%
AUSTRALIA	11%	34%
GERMANY	10%	20%
FRANCE	9%	20%
HONG KONG	8%	18%
UK	6%	14%
US	3%	7%

Source: Factset

CURRENCY

The revaluation of the Chinese yuan by 2% in July was the beginning of a significant change in the currency markets, yet after the initial gyrations, the excitement subsided and participants settled back to the daily grind. As we had indicated in the last quarterly, any temporary weakening of the A$ would be used to increase our hedging out of the US$ and the Japanese yen; this we did.

We find this a difficult decision because of Australia's predilection for foreign debt, two thirds of which is owed in currencies other than our own. The case to be made for the A$ relies on world growth being maintained at current levels which should sustain the country's improved terms of trade*. In addition, there is sufficient buoyancy in the domestic economy to ensure that short term interest rates do at least hold at present levels. With the continuing quest for yield, this should allow the country to remain relatively indebted yet still attract incremental foreign flows.

* This concept compares the value of a basket of our typical exports against a basket of our normal imports. After several decades of weakening relative prices, our commodity exports have been gaining in purchasing power against our manufactured imports.

SHORTING

The clear underperformance of the US markets suggests that our choice of predominantly shorting the US indices and shares has been technically correct albeit unhelpful to performance. The introduction of puts has given us some protection from upside spikes but at the cost of premium decay.

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS		
REGION	SEP 2005	JUN 2005
JAPAN	32%	31%
WESTERN EUROPE	26%	29%
NORTH AMERICA	17%	17%
EMERGING MARKETS	14%	12%
CASH	11%	11%
SHORTS	34%	30%

Source: Platinum

We have been most active in the Japanese market this quarter rearranging some of the holdings. Out went **NTT** and **NTT DoCoMo**, **Tokyo Broadcasting**, **Mitsubishi Chemical**, **Mitsubishi Tokyo Financial**, **Sumitomo Corp**, and some **Aiful**, **TDK** and **Fuji Electric**. These funds were used to bolster existing positions such as **Sumitomo Mitsui Financial**, **Toyota Industries**, **Nikko Cordial**, **Mitsui Corp** and **MHI**. New positions are being assembled in some **regional banks**, **Omron** and **Dai Nippon Printing**.

It is not as though the companies that were disposed of are at their full value but it has been a matter of taking advantage of laggards in what we believe to be the early days of a major bull market in Japan. For example, the switch into Sumitomo Mitsui Financial from MTFG is based on the improving quality of Sumitomo's profits, as they replace carry-trade earnings with traditional financial service margins. Moreover, Sumitomo Mitsui seems, on our investigation, to

be doing more to prepare for the inevitable battle for consumer loyalty.

In Korea we reduced **Samsung Securities** and **Seoul Broadcasting** after strong runs, and have switched into **Samsung Fire and Marine**, and **Kookmin Bank**. Both of the latter are under a cloud regarding the sustainability of their profits.

Kookmin benefits from its leading position in the highly oligopolistic banking market. Its history as a quasi-Government entity makes investors cautious about the sustainability of its earnings. However, from reading the Bank of Korea's policy statements, it is clear that the Government has stepped away from its former posture of using the banks as instruments of state industrial policy.

Samsung Fire and Marine is in a similar leading position as the country's best capitalised provider of long term health and welfare insurance policies. The nature of this business is that earnings will grow quickly for several years and mistakes, if any, will not be apparent within our normal investment horizon of five years.

In Europe, we have now left **Merck KGaA and adidas**, and have reduced **Linde** significantly. We have trimmed **Deutsche Post**, **Carrefour** and **Alleanza**, while initiating positions in **Norske Skog**, and **UPM**. These two paper makers have little to commend them at present. The industry is beset with chronic over-supply exacerbated by some reduction of newsprint usage as advertisers shift more to the Internet. However, the shares trade at around book value, UPM pays a good dividend and we can identify reasons why these businesses may perform better than is reflected in their current share prices.

We were disappointed in adidas' purchase of Reebok and took advantage of the market's enthusiasm to off-load. Deutsche Post is following a similar course in acquiring a British-based logistics company at what we regard as an extravagant price, even before it has fully digested all the acquisitions made in the last several years. The thesis for Carrefour as a force in global retailing seems intact but the miserable consumer environment in their home market, France, is arresting their progress. However, their ranging and pricing initiatives are helping them to gain market share.

In the US we sold **Agilent**, too early it transpired, and added to **Mosaic** and some biotechs. Potash prices have been very strong and the longer-term demand for phosphatic fertilizers suggests that the restructuring and commodity play, Mosaic, will be highly rewarding.

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	SEP 2005	JUN 2005
CYCLICALS/MANUFACTURING	TOYOTA MOTOR, SCHINDLER, SIEMENS, OCE	**29%**	**29%**
FINANCIALS	CREDIT AGRICOLE, SUMITOMO MITSUI INSURANCE	**15%**	**13%**
TECHNOLOGY/HARDWARE	AGERE, INFINEON TECH, SAMSUNG, AMD, SUN MICROSYSTEMS	**10%**	**11%**
RETAIL/SERVICES/LOGISTICS	HORNBACH, MITSUBISHI CORP	**9%**	**9%**
GOLD AND OTHER RESOURCES	SHELL, BARRICK GOLD, NEWMONT MINING	**7%**	**5%**
CONSUMER BRANDS	HENKEL, LOTTE	**5%**	**7%**
SOFTWARE/MEDIA	SEOUL BROADCASTING, NEWSCORP	**5%**	**6%**
TELECOMS	ALCATEL, SK TELECOM	**5%**	**5%**
MEDICAL	TAKEDA, SCHERING, GLAXOSMITHKLINE	**4%**	**4%**

Source: Platinum

COMMENTARY

Among the important political events of the last three months are the outcomes of the Japanese and German elections and the decision by the Chinese to float their currency.

The decision by the People's Bank of China (PBOC) to set upon the path of a **managed float for the yuan (CNY) in July is in our view of unusual importance**. Goldman Sachs* have produced a thorough review of the subject and make some valuable observations. Following the lead of the Japanese, the central banks of Asia have favoured using an undervalued currency as a mechanism to promote economic development. The process of intervening in the foreign exchange markets and sterilising the resultant liquidity build-up via the central bank issuing bills to domestic investors, works well for a while. However, this process invariably encourages over-investment in export industries, at the expense of domestic consumption which in turn tends to add unnecessarily to a climate of booms and sharp slowdowns. Moreover, the undervaluation of the currency tends to spill over into non-tradable inflation as seen in bouts of land and property speculation.

The limitation of these policies becomes particularly evident once these economies become large and more complex eg. Japan, or as in the case of China now that its trade account represents a large proportion of activity: exports plus imports being 75% of GNP. Further, when there is the prospect of higher inflation, the situation becomes alarming as the large outstanding pool of sterilisation bills become more costly to rollover (as banks seek other uses for their funds). Attempts to ameliorate the situation via administrative controls tends to hurt the good as much as the bad and **ultimately the regime is forced to fall back onto the price mechanism** to bring order and balance to their system.

* Global Economics Paper No: 127, 1 September 2005

This is **approximately the position most Asian central banks find themselves in today**. Currency intervention to impede the appreciation of their currencies has seen their balance sheets explode over the last few years; PBOC's assets have nearly doubled over the last three years, the BOJ's by 50% and the rest of newly industrialised Asia by more than this, according to Goldman. At the same time we have witnessed a distortion in their domestic economies where they **have under-invested in the service (non-tradable) sector**. Since around 1996, investment expenditure in Asia (excluding Japan and China) has fallen a full 9% of GDP to around 24% which explains their relatively weak growth rates and the accumulation of foreign exchange reserves. (Part of this under-investment was associated with the recovery from the IMF crises and also by the preference for investment in China. But importantly, the situation was exacerbated by undervalued currencies which suppressed domestic demand). However, when China's investment figures are tallied together with the rest of Asia, we find total investment in Asia has been strong. (Refer to charts on page 3).

The punch line to all of this is that there is no turning back. Japan began to float the yen tentatively in 1971 but within 18 months it suddenly appreciated by around 20%. This time around, **the whole of Asia will likely see their currencies lift** against the US$ (perhaps by less against the euro) as the productivity gap finds expression in appreciating currencies. **Significantly this will probably be accompanied by booming domestic demand and on account of the prospect of less volatile business cycles, a higher rating being applied to risk assets.** After a long drought, we expect to see very strong participation by domestic investors in their own share markets as they redirect their attention. **What then comes of their erstwhile facilitation of the US funding gap?**

We regard the routing of the traditional wing of the LDP in Koizumi's snap September election as setting the stage for a programme of further reforms. By disentwining them from the tentacles of the post office savings system, the banks and bond markets will take on the complexion of those seen in other developed industrial nations. It will uncover skeletons of extremely poor project finance decisions by the Trust Fund Bureau but simultaneously will force the banks to pay more attention to the hitherto ill-treated private depositor and borrower. After a life-time of priority being given to investment and trade, we can envisage a boom in new financial products which are directed at consumers - resulting in a surprising shift in resource use within the economy. This should ameliorate the effects of higher public charges and increases in taxation as the government works to reduce its fiscal deficit. Reform of the pension and health system will then give impetus to a system which is more responsive.

In the meantime, the election of nearly 100 new representatives to the *diet* (Japanese parliament) on a record voter turnout suggests that Japan is well on the way to rebuilding its self-confidence. Confirming the process are key indicators such as rising employment and real wages, improving property prices and the demise of deflation. The only ingredient missing from a "perfect bull market" is a seething lust for equities in domestic investors. Rising stock exchange trade volumes and private equity purchases suggest the process has started.

Germany

The stalemate following the narrowly run election in Germany has led to intensive talks which, as we write, have still not been resolved. A grand coalition between the Social Democrats (SPD) led by Gerhard Schröder and Angela Merkel's Christian Democrats looks the best bet but will seemingly do little to help the intransigent issue of unemployment. As you are aware, we have studiously ignored politics in Germany, relying instead on the pragmatism of business to resolve some of the imperfections in the German labour market. With the conservatives having 36% of the seats in the Bundestag compared with 34% held by the SPD, we see no reason to become more concerned now. Interestingly, the stock market is seemingly unconcerned.

OUTLOOK

One of the big unknowns is how well the developing markets will behave should high energy prices and other setbacks adversely affect consumer confidence and spending intentions in the leading economies of this cycle. The US, together with the UK, Australia and Canada are in the late or mature phase of this economic cycle while Germany, France and Japan, among the large economies, are trailing in their recoveries. We believe that inflation pressures are growing and that the higher cost of hydrocarbons still has to be reflected in final prices.

The second great puzzle is how long investors will remain comfortable with US treasuries yielding such a scant 1.25% margin over underlying inflation. This issue becomes all the more acute as Asia tentatively embarks on an upward currency adjustment. This implicitly involves holding a more diversified portfolio of international reserves. These latent concerns play on our conservatism. (Remember too, that without rising house prices, the bonanza for the US consumer of "cashing-out" home equity largely disappears. Already the cost of adjustable rate mortgages, which account for about one third of new mortgages, have risen by 1% from a year ago). There is some tentative evidence that the heat is coming out of the US housing market. It should be acknowledged, however, that in the case of the UK and Australia, the topping-out process was quite protracted before actual declines in "average prices" were reported.

We invariably err on the gloomy side yet can identify strong growth drivers in parts of Asia, Latin America, and Eastern Europe and Russia, together with its nearby former satellites. The risk to share prices seems to lie with a reversal of capital flows to developing markets and concerns about valuations on peak profitability in some developed markets.

CONCLUSION

We are still finding a broad range of stocks that we wish to own. The valuations of our holdings have risen but are still at justifiable levels. To ameliorate the risks of nasty surprises, we are holding large short positions in stocks and indices that we regard as expensive or over-stretched.

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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