PLATINUM INTERNATIONAL FUND

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PERFORMANCE

It has been a most testing and almost contradictory quarter. Early on, the words were all about the action of the Federal Reserve Board and whether they would increase rates further as statistics flew by regarding the pace of the US economy. Evidence of a sharp slowing in the property market sealed the argument, bond yields started to fall emphasising the inverted yield spread (that normally presages a recession) and then began the discussion about the inherent strength of demand in the US. It should be recorded that evidence of slowdown in the US was provided in most economic variables, except for consumer sentiment and retail demand. However, about this time the price of oil and gas also changed trend; oil from a high of $78 per barrel, bringing the promise of a lower tax on the consumer and so began the recovery in equities worldwide from around mid-July, punctuated by the $US32bn leveraged buyout of HCA.

More recently the hatching of several very large takeovers and private equity transactions have added conviction to this enthusiasm and markets have kept rolling upwards. The discussion has now moved on to the nature of the slow-down and whether the US will have a "soft or hard landing". At present the weakening oil price is favouring the former.

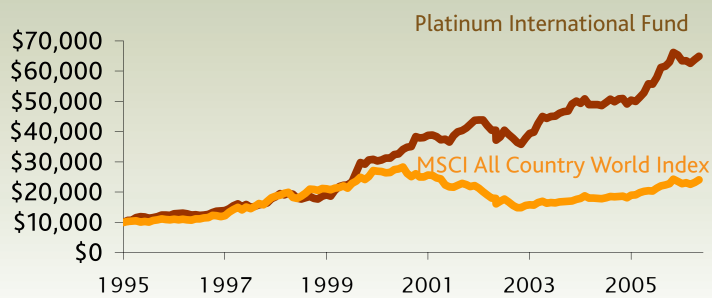
The outcome for the MSCI has been a rise of 4% for the quarter and 17.3% for the last 12 months. Most of the larger markets have herded around these figures with the exception of Japan which was conspicuously weak in the quarter at -1.2% but 15.8% for the year.

MSCI WORLD INDEX INDUSTRY PERFORMANCE (AUD)

SECTOR	QUARTER	1 YEAR
ENERGY	-4%	5%
MATERIALS	-1%	25%
INDUSTRIALS	1%	19%
CONSUMER DISCRETIONARY	4%	15%
HEALTH CARE	6%	13%
CONSUMER STAPLES	6%	17%
FINANCIALS	6%	26%
INFORMATION TECHNOLOGY	6%	11%
UTILITIES	8%	22%
TELECOMMUNICATIONS	9%	15%

Source: Factset

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



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

As was to be expected, the emerging markets sold off the most but have also been the strongest to recover. The Fund's performance over this period was respectively 2.4% and 16.3%: somewhat trailing the markets but not all bad given the Fund's net market exposure of around 50-60%.

The high level of momentum activity in markets is clearly demonstrated by the accompanying industry group analysis. Note the poor showing of energy and materials in the last three months while former discards are back in favour.

CURRENCY

Some interesting theories have been hatched about the persistent weakness of the Japanese yen. However, for the moment we are content with the argument that it is the borrowing currency of choice and until there are signs of a more aggressive stance on Japanese rates, the yen will tend to remain subdued. In the absence of any other input though, we are disinclined to reduce our exposure given the strengthening we are now seeing in the Chinese currency. The A$ was virtually unchanged against the US$ point-to-point for the three months but gained 3.6% versus the weak yen. There have been no changes to our currency posture.

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS

REGION	SEP 2006	JUN 2006
NORTH AMERICA	**26%**	**22%**
JAPAN *	**25%**	**25%**
WESTERN EUROPE	**24%**	**24%**
EMERGING MARKETS	**13%**	**13%**
CASH	**12%**	**16%**
SHORTS	**35%**	**32%**

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

Source: Platinum

We were relatively inactive over the quarter, completing the sale of Daiwa House, Sharp and Mitsubishi Chemical in Japan, and some small holdings in India. The principal purchases were Cisco, eBay, and Singapore Airlines.

Just as our investments in Ericsson and Alcatel reflect the belief that there is a long cycle ahead in the supply of cell telecom systems, so we see a great need for continuing expenditure on internet infrastructure. Moreover the existing copper wire based backbone of the telcos seems unlikely to be a long-term solution with the emergence of optical switching and the like. The rapid adoption of video exacerbates the need for greater bandwidth. By way of illustration, a one minute clip of video uses approximately 20 times the amount of capacity as the same time of voice traffic. However, <u>Cisco</u> can stand on its own investment merits without this tailwind. Here is a company which experienced a 50% net profit collapse at the end of the dot com boom, only to bounce back two years later to produce new record profits and by 2005 to have achieved net profits some 46% ahead of those at the peak of the bubble. This highlights the convergence of the telco and internet protocols and Cisco's leading position in the network operating system. No longer is the company subservient to the traditional telco equipment vendors!

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY			
CATEGORIES	EXAMPLES OF STOCKS	SEP 2006	JUN 2006
CYCLICALS/MANUFACTURING	TOYOTA INDUSTRIES, SCHINDLER, SIEMENS, INTERNATIONAL PAPER	**30%**	**27%**
FINANCIALS	CREDIT AGRICOLE, SUMITOMO MITSUI INSURANCE, SAMSUNG FIRE & MARINE	**15%**	**14%**
TECHNOLOGY/HARDWARE	INFINEON TECH, SAMSUNG, SUN MICROSYSTEMS	**9%**	**7%**
RETAIL/SERVICES/LOGISTICS	HORNBACH, CARREFOUR	**7%**	**7%**
SOFTWARE/MEDIA	LIBERTY MEDIA	**7%**	**7%**
CONSUMER BRANDS	HENKEL, BEIERSDORF, PERNOD RICARD	**6%**	**7%**
TELECOMS	ALCATEL, SK TELECOM, ERICSSON	**6%**	**6%**
GOLD AND OTHER RESOURCES	SHELL, BARRICK GOLD, NEWMONT MINING	**5%**	**6%**
MEDICAL	PFIZER, MERCK & CO	**3%**	**3%**

Source: Platinum

Though we regard it as having a marketing culture, its sheer size relative to its principal competitors and its commitment to R&D, at 13.5% of sales, means that it outspends the combined effort of the next three players (excluding Alcatel). At times the market seems to tire of the highly promotional nature of the company's communications but the moves it has made with Scientific-Atlanta and a stream of small but interesting acquisitions suggests that it can maintain its pattern of very high profitability and growth.

eBay is another high growth company but one the market fears is facing a declining growth rate. The issue here is the rate at which it is acquiring new users. This rate of change has been falling and is presently around 10%. At the same time there has been a proliferation of suppliers who often clog the site with fixed price common merchandise of limited appeal. It is for this reason that the company has been putting up its usage charges much to the commercial merchants chagrin. They now account for 30% of goods transacted on eBay.

We felt that the halving of the share price over the last two years was unduly harsh treatment for a company that attracts 80 million active (and 200 million registered) users thereby creating an almost unprecedented network effect. While the strongholds in the US, Germany and the UK may indeed be slowing, it seems too early to count out the company's growing support in France, Italy, China, etc.

It is not a business without risks such as on-line fraud and counterfeit goods but the user feedback mechanism has proven effective to date.

Longer-term, the acquisitions of PayPal and Skype offer novel solutions in an age of technological flux and could become significant in their own right. Their downside seems controllable in terms of rolling deficits.

Singapore Airlines is a much more linear story. This is a perfectly respectable company that has historically grown at a market-type rate of 6% pa yet because of the high oil price was selling at one of its lowest valuations ever. Yes, there is some new and perhaps carelessly funded competition on its long routes from some Persian Gulf carriers, but equally the growing opportunities in China and India are at least a compensating factor. Moreover, the deferred delivery of the Airbus 380 will tighten supply in the near term. For those of us who use long sector flights regularly, there is no doubt about the quality of the service (in all its respects). This is in no small part due to having the youngest fleet in the air - an average of five years old. It is our experience that buying a company like this when it is selling at close to book value tends to give a pretty attractive return once the near term issues subside.

COMMENTARY

In the past we have often highlighted the importance of themes and screens in our investment process and now is an ideal opportunity to describe the process in anticipation of an event. The big themes we are presently playing are paper; data and mobility and the concomitant capital spending cycle; the relative value of quality (mostly big capitalisation) companies versus their lower quality competitors; and the good prospects for agricultural prices.

Paper, however, is our biggest and most cyclically exposed bet. From an emotional view point, it feels very uncomfortable to have around 8% of the portfolio in an industry that in North America has experienced about 14 consecutive quarters of losses. Moreover, the demand for the commodity is notorious for its economic sensitivity and some of the indicators suggest we are on the cusp of the down-leg of an economic cycle! Further, the sector is coloured by the evident decline in western and particularly American newspaper readership due to the challenge of the internet and diminishing readership among the young. Worse still, the industry habitually adds to capacity at the margin which ensures sub-optimal returns.

This time around it has been in Latin America that capacity has been added. Here fast growing, high yielding hardwood species and other favourable factors ensure a 10 to 15% cost advantage over the average northern hemisphere integrated mill.

So how can we turn this sow's ear into a gossamer purse? Firstly we need to establish some of the facts. Historically the global use of paper has grown at around 3% pa, with the lower income countries tending in recent years to accelerate their use of paper to around 4.5% pa while wealthy countries are seeing usage rise by around 0.5% a year[1]. Yes, the realignment of currencies and untapped fibre potential has favoured Latin America recently and resulted in additional low cost capacity of pulp and paper. However, over the last 15 years only about **10 million tons of net new pulping capacity has been commissioned, yet over this period the demand for paper has risen by some 100 million tons. The shortfall has been met with recycled material.**

There has been a veritable boom in the building of de-inking plants as the pressure on land fills and action by green-minded municipalities has seen the recycling rate of paper rise to about 55%[2]. While the integrated mills (which require an investment of about $2 in plant for each $1 of sales they generate) have been struggling, closing or consolidating, the scrap-based mills have been enjoying a bonanza. Cheap scrap (old newspapers - ONP, or old corrugated containers - OCC)[3] and relatively light investment in plant have spawned mills near their principal markets, while the traditional integrated producers have faced losses and high transport costs.

Signs of change are evident: so dire is the financial plight of many mills that closures or planned shut-downs now entail more capacity than that which is being commissioned; prices of most grades are starting to reflect the higher cost of energy as mills are operating at close to peak levels and are thus passing on cost increases; demand is strong and in a world of ultra-enthusiasm about the China economic miracle, **paper together with grains, are the only commodities that fail to be mentioned**[4].

Importantly, as societies enjoy higher standards of living so their propensity to consume paper grows disproportionately. Of equal importance is the observation that both China and India are fibre

1 The declining segment is newsprint but with few exceptions, finer grades are growing, while packaging grades are galloping. "Developed world" total paper use is around 250kg per head pa while China uses 40kgs and India 10kgs per capita pa.

2 There is a wide range of experiences here with the likes of Japan and the Nordic countries already achieving 70% recycling rate.

3 There are many grades of paper with old newsprint for example being available at $US125 per ton while newsprint sells at around $US600 pt.

4 China is now the world's third largest producer at 55mt pa of all grades. Demand is seemingly rising by no less than 5 to 6mt pa. Global output is around 350mt pa.

poor (bagasse or dry pulp notwithstanding) and although the level of global paper recycling is still shy of its potential of say 70%, this may only be reached with higher price inducements.

It will be interesting to see how this story unfolds. The bulk of our position, some 5.5%, is in companies that are currently profitable and provide useful dividends even at current depressed paper prices, with the spice being provided by pure pulp makers and some integrated newsprint producers. In this manner we are **attempting to control the timing risk of this theme yet still reap the benefits of the prospective tightening of the merchant pulp market** if the theme plays out as we expect (and now hope!). If indeed the rate of global activity slows considerably, there is the risk of this theme being deferred but there are several finer points that may yet surprise and support the paper companies.

OUTLOOK

We have written often about abundant liquidity, but who would have thought that two and a half years after short-term rates had begun their ascent the yield of long dated bonds generally would be lower than then? Further, as earnings growth has been robust worldwide, equities earning yields exceed those of bonds - a rare event indeed (see chart on page 3). With this in mind it is hardly surprising that the most voracious agents of the capital system would seek opportunity in the risk spread. What will interrupt this behaviour we cannot identify. What we are certain of is that the economic cycle has not been banished for good!

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), 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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