PLATINUM INTERNATIONAL FUND

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PERFORMANCE

As the year progressed, the pace of the Fund's appreciation quickened. Performance in the first half was marred by one third of the Fund being committed to Japan, a market which declined slightly until June. At that time we commented that, "both our mechanistic and qualitative work suggests that Japan is and remains the most attractive of the large equity markets". Fortunately, our thorough methodology has paid off but it stands as a warning to those of our investors who would prefer to play with the in-crowd of momentum managers. Please do assess whether Platinum offers the sort of management style that you feel comfortable with over the long term. We would be astonished if there were not periods of underperformance in the future as a consequence of our contrarian approach to investing.

The accompanying table gives a hint of the opportunities offered by markets during the year. Conspicuous were the companies of the emerging markets which enjoyed both strong earnings growth and a further re-rating, hence the remarkable returns. Among the developed markets, Japan led, followed by the Europeans, and the US brought up the rear with a return barely matching the cash rate. For your interest, the table shows the 12 month and three month performance in native currencies, US$, as well as A$ to highlight the importance of currency movements this past year.

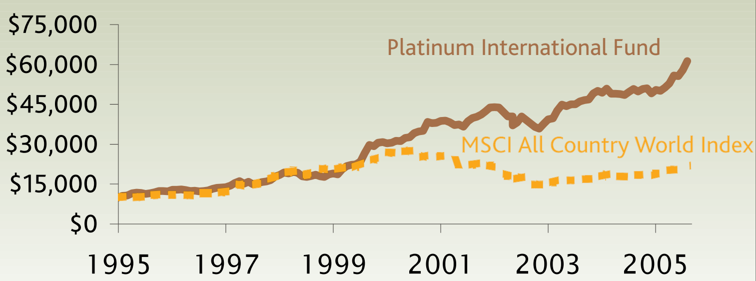
It is no surprise that energy and materials once again led the markets in terms of industry categorisation. The outliers were utilities which have benefited from low interest rates and consumer discretionary, perhaps anticipating a less robust consumer. It is interesting to note how energy and utilities went off the boil in the fourth quarter.

MSCI WORLD INDEX INDUSTRY PERFORMANCE (AUD)

SECTOR	1 YEAR	QUARTER
ENERGY	40%	-2%
MATERIALS	29%	12%
UTILITIES	22%	2%
INDUSTRIALS	20%	11%
FINANCIALS	20%	12%
HEALTH CARE	17%	6%
CONSUMER STAPLES	14%	5%
INFORMATION TECHNOLOGY	14%	10%
CONSUMER DISCRETIONARY	9%	8%
TELECOMMUNICATIONS	1%	0%

Source: Factset

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



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

MSCI WORLD INDEX COUNTRY PERFORMANCE (NATIVE, USD AND AUD)						
COUNTRY	NATIVE	USD	AUD	NATIVE	USD	AUD
		1 YEAR			QUARTER	
KOREA	53%	57%	68%	12%	15%	20%
JAPAN	45%	26%	34%	17%	12%	16%
INDIA	42%	38%	47%	11%	8%	13%
BRAZIL	38%	56%	67%	7%	1%	6%
GERMANY	27%	10%	18%	7%	4%	9%
FRANCE	27%	10%	17%	3%	1%	5%
AUSTRALIA	24%	16%	24%	3%	-1%	3%
UK	20%	7%	15%	3%	0%	4%
HONG KONG	8%	8%	16%	-3%	-3%	1%
US	5%	5%	12%	2%	2%	6%

Source: Factset

Against these various opportunities, there were areas where we could have done better, most notably in currencies but overall our returns were acceptable. The Fund outperformed the MSCI index by 2% over both the year and the quarter, earning 20.7% and 9.7% respectively.

CURRENCY

At this time last year we fretted about the one-sided view the market had against the US$ and chose to tentatively own some. However, as has happened in the past when there is a conflict between a strategic view and a tactical view, we tend to make rather limp concessions in favour of tactical arguments. This has been costly, made all the more so by our misreading of the attraction of the yen being used as a source of cheap funding for asset speculation. The consequence was that we were positioned about 160 degrees out of sync.

By the fourth quarter, the change in the tempo of the currency markets suggested a diffident swing in sentiment against the almost certain bet of borrowing cheaply in euros and yen. The yen clawed back some 3% against the US$, and given our view that the outlook for world growth is relatively benign, we hedged some yen into Australian dollars.

At present, we are ambivalent about exchange rates, mostly holding the underlying assets in their native currencies. To the extent we hold US$ investments or cash, these are hedged into Australian dollars. In this instance we are suggesting that the benefits that the US$ derives from its reserve currency status approximately matches the benefit that the A$ derives from the current commodity boom. In neither case is an argument being made against the fact that both nations are living beyond their means. This position will remain under close scrutiny.

SHORTING

By late October, we had reduced our short positions as the markets sagged under the uncertainty of galloping oil prices and concerns about avian flu. As the quarter progressed we gradually reinstated positions and at quarter's end short sold Nikkei index futures with the view that the Japanese market was tending to run ahead of itself. We also introduced a short on Japanese Government Bonds (JGBs) earlier in December in anticipation of the gradual return to orthodox monetary policy.

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS

REGION	DEC 2005	SEP 2005
JAPAN *	**33%**	**32%**
WESTERN EUROPE	**24%**	**26%**
NORTH AMERICA	**19%**	**17%**
EMERGING MARKETS	**14%**	**14%**
CASH	**10%**	**11%**
SHORTS	**34%**	**34%**

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

Source: Platinum

In this period we continued the pattern of disposals seen in the third quarter. Namely, selling down across the board in India, and completing the sale of Seoul Broadcasting, Daewoo International and Samsung Securities in Korea; Linde, Deutsche Post, Alleanza Assicurazioni in Europe; and Fuji Electric, NSK, IHI, Credit Saison, and Aiful in Japan. New sales were initiated to reduce our holdings in the Toyota group of companies and to exit Falconbridge.

Fortune favoured us regarding Falconbridge. After Brascan sold its remaining 20% to Xstrata there was the risk of the latter gaining creeping control without fully paying shareholders for the extremely interesting mineral assets of the group. Fortunately the CEO, who was truly concerned about all shareholders, adroitly engineered a merger with Inco which saw the share price lift from $C24 to $C34 a share.

As mentioned last quarter, many sales do not necessarily reflect the full value of the companies but as they had each appreciated considerably since our entry, they were no longer compelling *investments*. Take Toyota Motor for example. We think it is indisputably the world's leading auto manufacturer, however, it has nearly doubled in price in 22 months, and regular readers will know that the now publicised problems at both Ford and GM were among the issues we considered when buying the shares at the outset. With these problems now clear to all, it is not the time to give them undue emphasis. We strongly believe Toyota will be the largest auto company soon and probably remain the most profitable. However, our job entails appraising the relative merits of great companies and great investments: the difference residing in price!

Purchases included adding to the Japanese regional banks, which we believe are incredibly cheap against all comers if one believes that interest rates will rise in Japan as an inevitable consequence of economic normality. We also bought a holding in Livedoor, a stockbroker-come-Internet portal. Additions were made to the paper and packaging manufacturers; to the fallen angels of the drug world, Merck and Pfizer; and to longer held positions such as Henkel (packaged consumer goods and industrial solutions),

BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY

CATEGORIES	EXAMPLES OF STOCKS	DEC 2005	SEP 2005
CYCLICALS/MANUFACTURING	TOYOTA INDUSTRIES, SCHINDLER, SIEMENS, HHI, INTERNATIONAL PAPER	**29%**	**29%**
FINANCIALS	CREDIT AGRICOLE, SUMITOMO MITSUI INSURANCE, SAMSUNG FIRE & MARINE	**16%**	**15%**
TECHNOLOGY/HARDWARE	AGERE, INFINEON TECH, SAMSUNG, AMD, SUN MICROSYSTEMS	**11%**	**10%**
RETAIL/SERVICES/LOGISTICS	HORNBACH, CARREFOUR, MITSUBISHI CORP	**9%**	**9%**
SOFTWARE/MEDIA	NEWS CORP, LIBERTY MEDIA, PREMIERE AG	**6%**	**5%**
CONSUMER BRANDS	HENKEL, LOTTE, BEIERSDORF	**5%**	**5%**
GOLD AND OTHER RESOURCES	SHELL, BARRICK GOLD, NEWMONT MINING	**5%**	**7%**
TELECOMS	ALCATEL, SK TELECOM, ERICSSON	**5%**	**5%**
MEDICAL	SCHERING, GLAXOSMITHKLINE, PFIZER, MERCK & CO	**4%**	**4%**

Source: Platinum

Carrefour (the world's second largest retailer) and Credit Agricole (France's leading financial intermediary).

The road is never paved with gold, however. A recent purchase of Germany's pay-TV operator Premiere AG, before the outcome of the bidding for the broadcast rights for the *Bundesliga* domestic football contest, saw the share price collapse on the announcement of their having been outbid by a cable rival. The shares have recovered somewhat but it will be interesting to see how they try to solve their dilemma for programming content. They are not without choices we believe.

COMMENTARY

It is seldom pretty to look back at the **supposed certainties** of 12 months earlier. The current "certainties" seem to be that the world will grow at a reasonable pace (with the hitherto leaders slowing and the laggards gaining pace), that inflation will remain subdued, and that short term interest rates are consequently not likely to lift much. This leaves investors extremely comfortable as indicated by the published bull to bear ratios and the low implied price of option volatility. "Certainties" have the knack of reducing one's critical faculties and we are no exception.

We do know, however, that much of the **present propitious mood is the direct result of a concerted central bank bail-out**. There is easy money everywhere with real short term interest rates varying between slightly negative, as in Asia, to barely positive in the euro area and up to 2% elsewhere. Even in the popularly declared sick economy of Europe, this has induced loan growth of over 9% year-on-year. We therefore continue to favour the case for a world of more balanced growth, assisted by Asia generating greater internal and inter-regional growth (note our comments in the September quarterly). In the meantime there is a crescendo of real asset speculation.

At the end of 2002 the high yield debt ("junk bond") markets were illiquid and very unfashionable in the aftermath of Enron, Worldcom, and other disasters. As the US (and global) economies reflated, what was previously thought of as speculative debt became less speculative, allowing many companies to refinance. High yield debt was the best performing asset class in 2003 and 2004.

With performance came floods of money seeking "junk bonds" – and the interest rate differential between junk and government bonds shrunk to very low levels. High risk endeavours that would usually have to pay substantial interest rates could borrow at trifling spreads over low yielding treasuries. Money was cheap and available.

If highly speculative adventures can be financed cheaply they probably will be, and in much of the world they are being pursued on a grand scale. So-called ***private equity is the metamorphosis of the earlier fashion of leveraged buyouts (LBO)***.

The private equity funds, which have attracted huge flows, try to take advantage of the difference in returns expected by the equity market and the junk bond market. If the assets purchased generate a higher gross cash flow (pre-tax) than currently low yielding junk bonds, an LBO can be made to work. Moreover, any business improvement belongs to the equity holders but the downside belongs disproportionately to the bond holders.

Some of the recent deals have been breathtaking. For example, the sale of the PanAmSat satellite data business owned by DirecTV (and controlled by Rupert Murdoch's News Corp). News Corp sold the business to leveraged buyers for $4.3 billion, $3.75 billion of which was borrowed. The new owners only put up $550 million. Months later PanAmSat borrowed a further $250 million which was used to pay "dividends" to the equity investors, reducing their contribution to $300 million. A few months later they floated the company and $200 million of the proceeds were used to pay a second dividend to the equity investors, reducing their equity contribution to

$100 million. After the listing the initial shareholders held almost half of the company when, out of the blue, a bidder emerged to offer shareholders over $3 billion. Needless to say, the new purchasers are financed yet again with junk bonds. Presumably Mr Murdoch, in a public auction, did not deliberately leave several billion dollars on the table!

The fact is that there is a round-about of hedge and private equity funds (that have mobilised savings from a sometimes unsophisticated public) to invest in all manner of asset classes that is reflexive by nature. ***Each buys from the other and ultimately relies on the public markets to provide the escape route.*** This hatch was diminutive in late 2002!

Nowhere is this activity more pronounced than in Australia where unsustainable "earnings" are being manufactured, levered and sold to the public in listed vehicles. Investors would be wise to compare declared earnings against gross revenues. In some instances they may discover that "earnings" exceed cash revenues (gross cash-in-the-door!!). These fantastic gymnastics are achieved by so-called "mark to model" revaluations, and dividends paid in part from "refinancing" gains.

The purchasers involved in these LBOs are often not the natural owners. They derive their income mainly from being paid a share of profits when the investment is on-sold. ***These assets are purchased to flick.*** However, to date, the assets have been easy to flick because there has almost always been another private equity fund or public market willing to buy them. The most common deals we see these days are no longer public to private transactions but transactions between private equity firms, generating each time another round of activity-inducing fees to managers, junk bond salesman and investment bankers.

An important element of this is the willingness of junk bond holders to hold ever-riskier debt. In this they have some support because the default rate on the junk debt issued in this cycle has been very low, helped by a benign economy and self reinforcing optimism (reflexivity).

As interest rates have risen in America, the heat in the private equity market has moved to Europe where interest rates remain very low. This is also tending to drive-up the price of listed shares in Europe. Further, excess liquidity generated by the Bank of Japan is doing its share of work, finding expression in carry trades which make funds available globally to fuel the fire.

Yes, this does all sound familiar. In the 1980s, Michael Milken, through clever marketing and force of personality, convinced investors to hold *portfolios* of junk debt which were supposed to lessen risk. Some should have known better. He funded many highly speculative ventures some of which worked (being a great help to both Rupert Murdoch and Ted Turner) and many of which failed (for example Bond Corporation). In the end there were many losers (including life insurance companies that lost billions of dollars and failed): Milken had rearranged the financial landscape of America. His firm took enough fees to pay him over half a billion dollars in 1987. He went to prison too. It ended in tears for some, and great success for others. That is how this current wave of cheap money and leveraged transactions may also end.

CONCLUSION

In general we are in agreement with the widely-held optimism but the rampant speculation noted above does fill us with foreboding. Over the next 12 months one can expect periodic panics about growth, a fair degree of currency turbulence and perhaps a greater margin for error being applied to riskier assets. With this in mind we have been gradually shifting the portfolio away from highly successful areas to those which are less fashionable. Some of these new ideas carry timing risk but could be highly prospective. We are maintaining hedges on several markets and shares.

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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