

PLATINUM EUROPEAN FUND

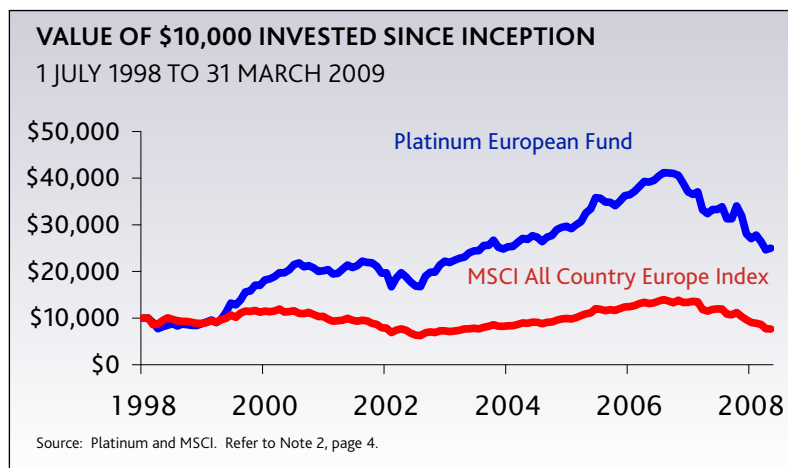


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PERFORMANCE

European stock markets were lower again in the quarter, by 14% as measured by the MSCI in Australian dollars. The rebound in markets since mid-March makes for an odd mixture of stocks and sectors at the top and bottom of the performance tables. There are a few banks scattered among the resources companies in the winners list; however, some large British banks (Lloyds, -43%, and Royal Bank of Scotland, -50%) feature among the “laggards” as well. Perhaps more surprising is the renewed decline of the leading (non-government) free-to-air TV stations (France’s TF1, -43%, UK’s ITV, -52%); the identical drop (-51.6%!) of the two Finnish pulp/paper giants; and the “non-defensiveness” of the UK telecom BT Group (-42%). Continuing the year-old pattern, in other words, there were many and varied ways to lose money in the European markets this quarter...

The Platinum European Fund, relatively fully invested in the light of the many enticing valuations, lost 10% over the period. Damage was suffered particularly in St Gobain (building materials, -31%), JC Decaux (outdoor advertising, -31%) Daimler (ie. Mercedes Benz, -27%), and Lagardere (media, -27%). It may be worth noting that each of these four stocks had already declined by nearly two thirds *before* this quarter’s swan-dive.



PORTFOLIO ACTIVITY

We took advantage of the strong performance of mobile telephony specialist Ericsson (whose share price was higher(!) than a year ago), and the resilience of German software group SAP, to reduce “technology” exposure to 6% of the Fund. Elsewhere we closed the small but profitable short position on handbag hero Hermes; and reintroduced a modest holding in the water utility Veolia Environnement (at a share price of Eu16, compared to mid-2007s peak of Eu65). The A\$ position of the Fund was maintained at around 67%. At the end of March the Fund was 92% net invested (comprising 96% long, 4% short).

COMMENTARY

Recent data from Morgan Stanley indicates that share prices (as measured by the global MSCI data) are approaching the level of “book value” (or net assets). The commentary notes that this level hasn’t been reached in 35 years. Indeed for much of the period, certainly for the past two decades, two to three times book was the norm. (Share prices exceeded four times stated net assets in the frenzy of 1999/2000). Japan, as a whole, now trades “below book” – not an encouraging metric for those concerned that Western economies are set to replicate Japan’s recent history.

European markets are generally trading at a small premium to stated book value (French CAC Index 1.05 times, German DAX Index 1.2, UK 1.4, Spain 1.45 etc); Italy is an exception at 0.8 times (ie. a 20% discount to net assets). At the lows of 13 March 2009, the markets were generally below book value (the 50 Euro leaders at 90% of book, the 500 largest at just a 5% premium). “Book value” by definition may not be realisable in that the carrying value of assets may well be above their market value (eg. expensive acquisitions in the credit bubble generating accounting – not real – “goodwill”). With that caveat, however, the long history of markets seldom trading so cheaply on this measure is somewhat reassuring.

Moving away from the abstraction of market aggregates, two examples on the situation at stock level may be useful. We have recently added to the Fund’s holding in the French building materials/glass/packaging group St Gobain. The company has 209,000 staff, operations in 60 countries, and annual revenues of Eu44bn (A\$80bn). While some of its products are undifferentiable commodities in nature, the group makes a sustained effort to improve its pricing power by investing heavily (Eu400mn pa) in materials and application research. Over time this underpins revenues. In addition, perhaps a third of the business benefits from the energy efficiency trend – government building codes now require energy saving materials to be used in hospitals, schools etc in much of Europe.

In the last decade, St Gobain’s annual earnings per share have been, in Euros: 4.0, 4.5, 3.6, 3.1, 3.0, 3.0, 3.4, 4.6, 3.6, and 3.1. It is a steady business, serving industries which fluctuate at varying rates, but with a sufficient geographic and end-user spread to result in a decade of earnings around Eu3.5 per share per year. At its 2007 peak of Eu78, the stock was expensive, not least because the most famous French buyout group was building a stake with the intent of shaking up this proud old (founded 1665) company. However, at Eu20, where we recently added to the holding (now 2.8% of the Fund), and at Eu24 as we write, the shares seem underpriced. The so-called “Graham and Dodds P/E” measure, where the average of the last ten year’s annual earnings per share is divided into today’s share price, gives 7 for this stock. Historically, for markets generally, a figure of 10 is low. For a company in good financial shape (a recent rights issue partly explains the weak share price), with scale, breadth and strong market positions across the board, 7 times is close to fire-sale pricing. St Gobain trades at around two thirds of book value; this is about half of its longer term rating.

Another stock trading below book value is machinery maker Metso of Finland (0.9 times book according to the Factset data). This company serves both the pulp and paper, and mining industries (the latter with rock crushers etc, also extensively used in road building). This stock is an old friend, which we started buying at Eu10 in early 2004 and finished selling at Eu44 in

mid-2007. The shares inevitably went on, touching Eu50 a few months after our exit, but have since collapsed to around Eu9, where we have again been adding. A similar Graham & Dodd P/E calculation gives 8 for this stock, albeit that the earnings are not as steady as in the St Gobain example, with Metso having two loss-making years in the past decade.

However, the business is an interesting one, with just a few competitors, and while it has enjoyed the volumes (and pricing) of the mining boom around the world, it has had very little new building business from the pulp and paper division. The latter could surprise with new orders, but in the meantime the spares and maintenance activities in support of these high tech machines provide steady profits. On the rock-crushing side, government fiscal initiatives on highway building offset the slowing orders from the miners. The Fund has 2.1% in Metso.

Such companies, with strong market shares in admittedly “cyclical” industries, available at these valuations, are the reason we have the Fund fairly fully invested. It is entirely possible that markets may yet make new lows as the recession deepens; indeed credit market pricing, and the realised losses – and low recoveries – on debt defaults clearly heighten such concerns. However, at the individual stock level, valuations have dictated the 90%+ net invested position. The main effort at the moment is to try to improve the average “quality” (ie. dependability) of the stocks in the portfolio, by using strong market rallies to weed out stocks where debt or earnings strength is worse than the alternatives available.

In May 2009 I will be leaving Platinum Asset Management after 15 years. It has been a fascinating time to be analysing and investing in European businesses, with the markets presenting all sorts of opportunities, including two major escalations as well as several precipitous drops. My great thanks to Platinum European Fund unitholders for your interest and patronage. As a PEF unitholder myself, I look forward now to reading future quarterly reports by Clay Smolinski, a colleague whose company I have enjoyed, and whose advice I have greatly valued, these last few years.

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 Unhedged Fund:
Inception 31 January 2005, 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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