Platinum European Fund

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Performance

(compound pa, to 31 March 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	10%	13%	19%	14%	12%
MSCI AC Europe Index	11%	14%	20%	10%	3%

Source: Platinum and MSCI. Refer to Note 1, page 4.

There was no shortage of action in European markets this quarter. Share prices rose 11% on average. The German DAX was up 22%, leading the charge, while the Swiss and British indices were notable laggards. In currency markets, the Euro depreciated 11% against the US dollar. Bond yields continued to grind lower. The yield on the 10 Year German Bund more than halved to a miserly one-fifth of one per cent (0.2%) and Portugal now finds that it can borrow more cheaply than the United States of America.

Disposition of Assets

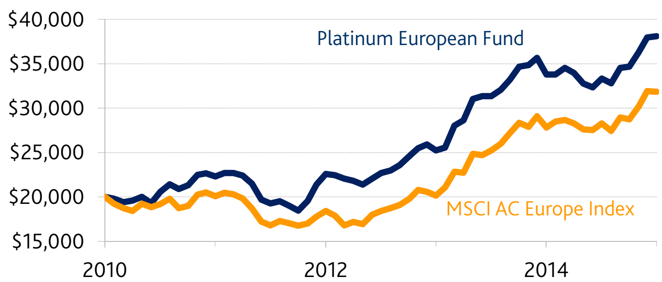
REGION	MAR 2015	DEC 2014
Germany	20%	24%
UK	19%	24%
France	8%	8%
Italy	7%	7%
Spain	7%	5%
Russia	3%	3%
Switzerland	3%	3%
Austria	3%	3%
US *	3%	4%
Norway	2%	2%
Netherlands	2%	2%
Sweden	1%	1%
Turkey	1%	1%
Cash	21%	13%
Shorts	1%	1%

* Stocks listed in the US, but predominant business is conducted in Europe.

Source: Platinum. Refer to Note 3, page 4.

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 4.

The European Central Bank's (ECB) open-ended commitment to buy 60 billion Euros' worth of public sector debt **EVERY MONTH** played no small part in all this. Many investors attribute economic recoveries in the US and the UK to Quantitative Easing (QE) and anticipate similar outcomes in Europe. Even those who harbour doubts about what QE can achieve acknowledge its effect on asset prices.

Responding to the currency weakness, investors bid up the price of exporters and companies with significant overseas earnings, particularly cyclical ones. Automotive stocks were the best performers, followed by process industries. With no yield to speak of in government bonds, investors sought it out in stocks. Domestic-focused sectors with respectable yields performed well, notably Property, Insurance and Telecoms. The laggards were Energy, Mining and Banking. The Emerging Markets of Eastern Europe remain firmly out of favour.

The Fund returned +9.9% for the quarter and +12.8% over 12 months. Our cash balance is large and growing as we struggle to find attractive investments at today's valuations. Holding cash is weighing on our performance in a rising market. By going against market momentum in this way, we are sacrificing short-term performance for the flexibility to capitalise on what will, hopefully, be much better opportunities down the track.

Changes to the Portfolio and Commentary

Enterprise Inns suffered an adverse change in legislation which limits its ability to use the "beer tie" that once forced tenants to buy beer from the company at inflated prices. Enterprise Inns has been a profitable investment so far and we believe there is still significant value on the table. However, extracting it for shareholders will be a lot trickier now. We reduced our position to reflect this.

We also reduced a number of holdings where we think the market valuation flatters the fundamental prospects of the underlying business. These include automakers **BMW** and **Daimler**, molecular diagnostics company **Qiagen** and financial market organiser **Deutsche Börse**. Finally, we sold out of pulp company, **Mercer**, where the investment case has mostly played out.

Taking advantage of the negative sentiment towards oil-related stocks, we added to our investment in pipeline inspection company, **Applus**. The shares have appreciated since our initial investment, but valuations remain attractive and a recent update by the company lends support to our investment thesis.

We also added to our holding of **Turkcell**, the dominant mobile phone company in Turkey. There are a number of things we like about it. The market is growing fast and the pending introduction of fourth-generation (4G) services will add to demand. With only three service providers, the market should lend itself to rational competition. Moreover, the company is well-positioned, having the best network in the country, enjoying a 50% market share and generating plenty of surplus cash with no debt.

The main complication with Turkcell is that competition has been anything but benign. For the last half-decade, the regulator did all it could to hobble Turkcell while its competitors, Vodafone and Turk Telecom, cut prices to take market share. The regulator wanted a more balanced market. This has now largely been achieved with a 50/30/20% breakdown of market share and, in any event, there is little more the regulator can reasonably do. Meanwhile, Turk Telecom, historically the price aggressor, continues to lose money in mobile. With its fixed line business slowly decaying and a 4G spectrum auction looming, Turk Telecom faces some hard choices. We are hopeful that their *recently announced price increases* signal an end to the long-running price war.

While there is an ongoing feud among Turkcell's three largest shareholders, they recently buried the hatchet long enough to announce a special dividend (14% of the company's market cap!) and an intention to resume regular dividends.

The business is expected to grow 10% per annum; its margins are suppressed; there is no debt; and an ongoing 4% dividend yield is easily achievable. At 12x earnings, we smell an opportunity here.

Our largest investment during the quarter was in Spanish airport network owner and operator, **Aena**. Airports are natural monopolies. Noise, pollution and traffic problems make it hard to build competing assets, even when suitable land is available. Meanwhile, demand for the service tends to be very price inelastic.

While pricing is regulated, Spain is moving to a "dual-till" approach with the pricing of non-aeronautical services (e.g. retail rents, car parking) to be progressively deregulated over the next five years. On our numbers, Madrid and Barcelona earn significantly less non-aeronautical revenue per passenger than other major European airports, providing an avenue for profit growth. Looking at car parking fees, for example, we found Madrid and Barcelona were orders of magnitude cheaper than other major European airports (not to mention Sydney).

The other attraction of this asset is that Spain has invested huge amounts of money in infrastructure over the last two decades. Unlike many European airports, Spain's network is new and has the capacity to handle far greater passenger numbers. With no additional investment needed, all the cash generated by these airports can be applied to debt repayments and dividends.

We bought the company for 10x free cash flow. Initially, this cash flow stream will be used to repay debt, but much of it can be redirected to dividends in the latter part of our investment horizon. In a world starved for yield, this highly defensive and cash generative business appeared seriously mispriced.

Outlook

As investors gravitate towards Europe, attractive investments are becoming increasingly hard to find. At the same time, we feel compelled to reduce holdings where valuations are at odds with the prospects of the business.

This leaves the Fund with a large, and growing, cash holding that will drag our performance should markets continue to march higher (and, equally, protect us in the event of a reversal). We understand that this may frustrate some investors, but would encourage them not to extrapolate from recent experience which has been truly extraordinary: the 22% quarterly appreciation of the German DAX index is the third highest quarterly return in the history of this index and its highest first quarter return ever.

We would sound a similar cautionary note on the currency. The 11% depreciation is the Euro's worst quarterly performance against the US dollar in its history and comes on the back of depreciations in the prior two quarters. The Eurozone was internationally competitive at much higher exchange rates and since 2012 that competitiveness has become much more widespread. Where in the past Germany's surplus offset deficits elsewhere, today most countries in the Eurozone run current account surpluses. And this was true before the recent 11% depreciation! Thus, while we maintain a 22% exposure to the US dollar, we are inclined to buy the Euro if it continues to weaken.

The most notable feature of Greece's current confrontation with the European Union (EU) is the market's complacency about the very real possibility of Greece defaulting on its debt and leaving the Euro. Much of the groundwork for a Greek exit was laid following the country's 2012 sovereign debt crisis and the ECB's buying of government debt seems likely to steamroll any ructions in bond markets. However, the situation does bear close scrutiny as the anti-EU message is increasingly resonating with voters across Europe, especially in Spain and France.

Notes

1. The investment returns are calculated using the relevant 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 historical 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).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 28 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 March 2010 to 31 March 2015 relative to its benchmark index (in A$) as per below:

   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net Index

   The investment returns are calculated using the relevant 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 benchmark 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.

3. Invested position represents the exposure of physical holdings and long stock derivatives.

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