Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	JUN 2010	MAR 2010
Belgium	2%	3%
Finland	3%	3%
France	25%	27%
Germany	41%	37%
Italy	3%	3%
Netherlands	2%	2%
Norway	1%	2%
Sweden	3%	2%
Switzerland	3%	3%
UK	8%	7%
US	1%	1%
Cash	8%	10%
Shorts	8%	5%

Source: Platinum

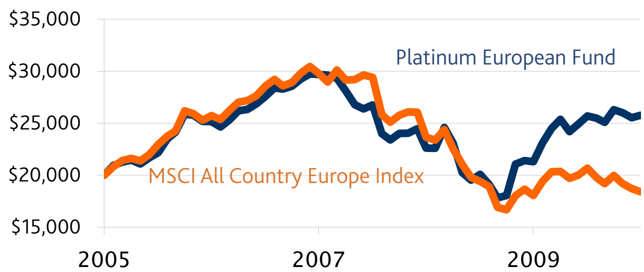
Performance

The weakness in European markets continued throughout the quarter as the fears around sovereign debt spread from Greece to engulf the Spanish and Portuguese bond markets. Within the context of spiking sovereign borrowing costs, a falling Euro and the memory of the Lehman Brothers collapse still fresh, the European Central Bank (ECB) and International Monetary Fund (IMF) stepped in to provide a €750 billion liquidity package to fund any sovereign debt issuance, should it be needed. Whilst the package momentarily calmed the markets, the focus has now shifted to solvency and growth, and can the affected nations grow their economies in the face of synchronous fiscal tightening across Europe.

Within the core European markets, the FTSE (UK index), CAC (France) and DAX (German) were down -14%, -13% and -4% for the quarter respectively, with the DAX benefiting both from its heavy composition of exporters who are helped by the falling Euro and the perception of Germany as a safe haven. The Mediterranean belt countries were again the hardest hit with the Italian (-18%), Spanish (-24%) and Greek (-34%) markets all down heavily year to date.

Value of $20,000 Invested Over Five Years

30 June 2005 to 30 June 2010



Source: Platinum and MSCI. Refer to Note 2, page 5.

Whilst the sell-off was broad with few sectors spared, the bright spots were the aforementioned beneficiaries of the weaker Euro, with the Aerospace suppliers (Safran +19%, EADS +13%) and European truck and luxury vehicle manufacturers (Daimler +20%, BMW +17%, Volvo +20%) doing well. The key areas of weakness were the financials (Soc-Gen -26%, Intesa Sanpaolo -21%, AXA -22%), the miners (Xstrata -29%, Rio Tinto -24%) and finally the utilities (E.ON -19%, RWE-18%) who have not lived up to their defensive billing, as governments are now seeking to tax the windfall profits these generators make on their nuclear assets.

For the quarter the Fund returned -2% versus -7.9% for the MSCI AC European Index. The relative performance of the Fund was helped by our holdings in the aforementioned aerospace and auto manufacturers (BMW, Safran, EADS, Daimler), along with very little exposure to financials and the Mediterranean markets. Over the past six months the Fund's return is virtually stagnant, the only consolation being the return relative to the Index which was down 11%. The twelve month return is pleasing with the Fund up 21% versus the Index up 2%.

The currency position of the Fund has not changed dramatically, however, we did add a little to our Australian dollar position as it fell from 0.72 to 0.65 versus the Euro in mid-May. The risks around the Euro are well advertised and probably overplayed when viewed in a relative sense compared to the other majors. The Fund's major currency position is 44% Euro, 25% Australian dollar, 13% Norwegian kroner and 8% in the British pound.

Commentary

We left our last quarterly with the EU members deliberating back and forth over the design of an eventual rescue package for Greece. Since then the change in the speed and magnitude of the policy response has been dramatic to say the least and the timeline of events worthy of some comment. The Greek Government received their bailout in the form of a €110 billion funding package, a significantly larger sum than what was being discussed in February-March and enough to cover their borrowing needs for three years. However, this had little effect in calming the bond markets, whose focus had now firmly shifted to questioning the solvency of Portugal, Spain and to some extent Italy. Meanwhile, the expectation of some eventual debt restructuring by Greece has become almost a foregone conclusion.

Linked to the fear over government solvency in Europe is concern about the health of the banking system. The more immediate concerns are around the domestic loans books in places like Spain where there is an expectation that bad loans stemming from the property bubble which have not been fully recognised, will only get worse once government spending is pulled back. The more distant fear is a scenario where given the cross holdings of government debt within Europe (ie. German financials holding Italian and Spanish debt), an eventual sovereign default will trigger the need for a big cash injection into the banking system.

Combating the problems above, we have seen the following policy responses over the quarter:

- The aforementioned €750 billion ECB & IMF sovereign funding package, separate to the funds pledged to Greece.
- Spain implemented their version of the US Troubled Asset Relief Program (TARP) programme, the Fund for Orderly Bank Restructuring (FROB), as well as forcing a number of their unlisted regional banks (the cajas) to merge. The FROB can take up to €100 billion of bad loans onto its books and while this merely shifts the debt onto the government's balance sheet it will foster confidence that the banking problems are being managed.

- The ECB is currently performing stress tests on the top 100 European banks, with the results to be published mid-July. We have been provided little detail on the metrics used but if the 'stress scenarios' are seen as credible and there is a mechanism for capital injection, it will be an important step forward.

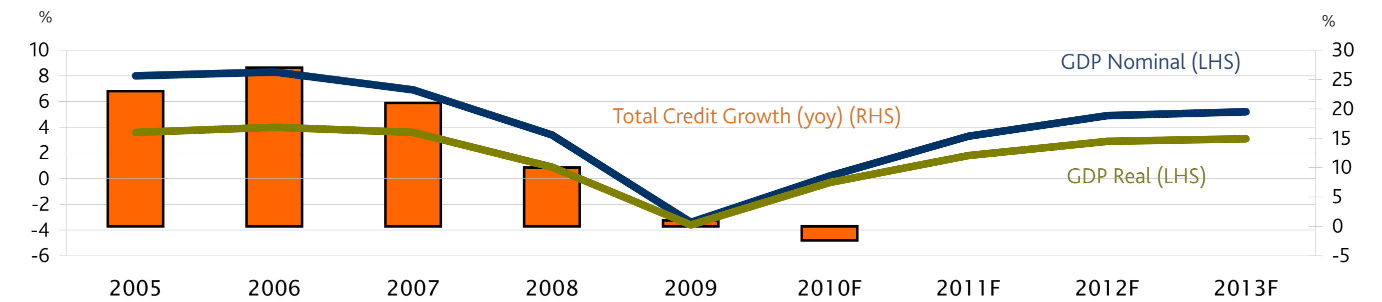
With the bulk of rescue packages behind us, the scene is now set to answer the critical question, can the UK, Spain, Ireland etc go against Keynesian economic theory and grow their way out of trouble while cutting government spending? Given the political tensions between the single currency members, the success or failure of this goal could be a turning point in determining the future make up of the euro-zone.

A quick look at any European newspaper will reveal plenty of articles discussing the 'severe' and 'painful' cuts being made to public finances. Without wishing to make light of the situation of those civil servants who have endured 5-10% pay-cuts in places like Ireland, the reader may be surprised by the fact that total government expenditure in each of the emergency budgets presented by the UK, Spain and Ireland doesn't actually fall. In each case[1] expenditure jumps dramatically in 2009-2010, and then grows slowly by 1-2% over the next 3-4 years. Coupled with the fact that *in aggregate* the budgets have refrained from raising taxation by any meaningful amount, the debt reduction targets of these countries are hugely reliant on achieving their economic growth projections. It would seem Plan A is to slow spending and hope revenue growth copes with the rest.

The problem with this is that the growth expectations of the countries (shown in the graphs below) look fairly optimistic and the forecasts tend to mimic the trends seen earlier in the decade. The key numbers to draw your eye to are the credit growth figures. We have often pointed to credit growth as one

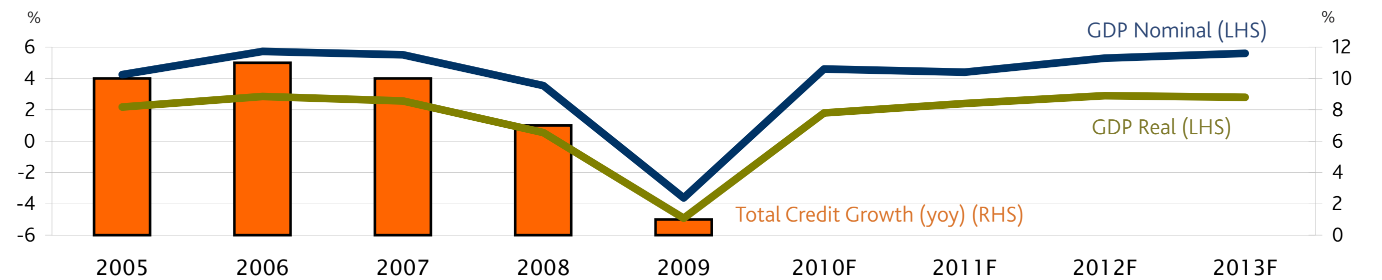
[1] Ireland is the only exception with a one off €8 billion cut to capital expenditure in 2010.

Spanish Government GDP Forecasts



Source: Factset, UBS and ECB

UK Government GDP Forecasts



Source: Factset, UBS, ECB and British Treasury of the key macro indicators to watch during the recovery. Future consumption is being recognised today when lending is growing, deferred to tomorrow when shrinking. Whilst there will be a bounce back in activity given the scale of the declines, can we really go back to past growth levels now that credit has collapsed? While there is always plenty of scope to be surprised (ie. -20% devaluation of the pound against the US and Euro will boost exports) we remain sceptical these figures will be achieved.

Changes to the Portfolio

During the quarter we used the fall out over the AIA bid to build a position in UK based insurer Prudential. Whilst the acquisition of the AIA business would have been a unique transformation, the standalone business of Prudential is not uninteresting. Its UK life business is well positioned given its long heritage in that market, having avoided many of the pitfalls that have plagued the competition. Prudential's US business Jackson National weathered the global financial crisis far better than peers and is now gaining share as a result. Its ranking on new business written within the variable annuity market has lifted from 12th in Q4 2008 to 4th in Q4 2009. Most interesting is the 30% of Prudential's business located in emerging Asia (India, Indonesia, Vietnam etc). Distribution is hugely important in these markets and Prudential, having been there longer than most, has built an experienced tied agent sales-force. Prudential is one of the many interesting bottom up ideas we are finding in the insurance sector, and on 8x earnings or 0.8x embedded value, looks attractive.

After meeting the company in June we reinstated our position in Infineon. We think the company is set to grow profitability with its outstanding positions in automotive and industrial semiconductors. Also, a possible sale of their wireless division adds an interesting angle to the investment case. These acquisitions were partly funded via our exit of holdings in JCDecaux, Elringklinger and Schindler, all having been excellent performers for the Fund.

Outlook

As the content of the report demonstrates, the focus of the market has firmly shifted back to macroeconomic predications, with the debate over US and Asian growth now taking centre stage. In contrast, while still cautious about the future, the message from the companies is that conditions continue to improve. For instance, Publicis (French based global advertising agency) has seen a strong rebound in advertising spend over the past four months and Lufthansa is reporting a strong return in air-cargo volume and pricing.

We are aware it won't be all smooth sailing ahead, however, on balance given the fall in European markets and attractive valuations, we have been happy to use our cash to add to positions. At the time of writing the Fund is 95% gross invested, with 8% in shorts and 5% in cash, giving a net invested position of 87%.

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 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: 1 May 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 3 March 2003
   Platinum European Fund: 1 July 1998
   Platinum Japan Fund: 1 July 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 June 2005 to 30 June 2010 relative to their Index (in A$) 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
   (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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