Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	JUN 2013	MAR 2013
Germany	37%	39%
UK	22%	19%
France	12%	13%
Netherlands	4%	4%
Spain	3%	3%
Italy	3%	3%
Sweden	2%	1%
Russia	2%	1%
US *	2%	2%
Belgium	1%	1%
Cash	12%	14%
Shorts	7%	9%

* Pulp stock listed in the US but predominant business is conducted in Europe

Source: Platinum

Performance and Changes to the Portfolio

(compound pa, to 30 June 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum European Fund	14%	31%	13%	11%	12%
MSCI AC Europe Index	13%	32%	7%	-1%	1%

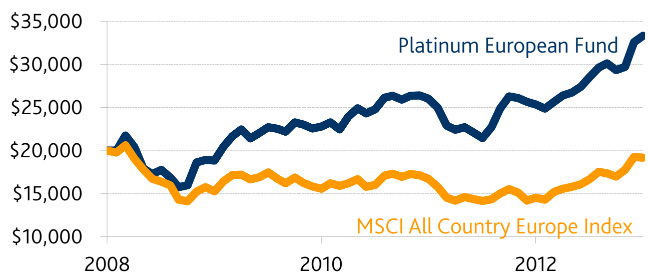
Source: Platinum and MSCI. Refer to Note 1, page 4.

Measured in their native currencies, the majority of European markets finished roughly flat for the quarter. However, this docile outcome hides a significant amount of volatility, with markets rallying 6-7% into May, before giving back all those gains as concerns took hold about stress in the Chinese financial system and the prospect of the US Federal Reserve reducing their rate of money printing.

With the falling Australian dollar, the return has been excellent. The European Fund returned 14% for the quarter versus the MSCI Europe Index return of 13%. Over the last financial year, the return of the Fund was 31%, essentially

Value of $20,000 Invested Over Five Years

30 June 2008 to 30 June 2013



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

matching the Index which returned 32%. We should also draw your attention to the fact that the Fund is well-above the highs of the market peak at the time of the Lehman setback.

Over the quarter we took advantage of the market sell down to add to our holdings in Sberbank and Carnival Cruise Lines. We also fully exited our position in German industrial giant Siemens, re-investing the proceeds into Swedish telecommunications hardware and software provider Ericsson.

Commentary

The central investment approach of the Fund is to seek neglect when making investments and hence we tend to be active in areas of the market that are currently seeing little interest from other investors. The recent past of the European sovereign crisis was a classic example of neglect on a grand scale. Investors were fleeing an entire region due to fear of tail risks, valuations across the entire market became very cheap and investment opportunities were plentiful. While it may sound perverse, the period of 'crisis' was an optimal time for investors with an approach such as ours!

The large improvement of investor sentiment towards Europe provides us with a different challenge. Over the past 12 months most major markets in the region are now up 30% and with company valuations sitting around their long-term normal 14x P/E range (with the higher growth/quality business valued closer to 17-20x), Europe is probably best described as 'fair value'. In a similar vein, within the Fund a number of our holdings have seen large price appreciation and can no longer be regarded as outright 'neglected'.

The natural response to this is to rotate the portfolio, selling down our holdings that have done well and buying into new areas that have been left behind. However, the speed of which you can rotate is dictated by the availability of attractive new ideas and by definition when markets have had a large rally, good ideas are harder to come by. This friction requires a judgement call on what ideas to remain with even if they are becoming widely discovered and it is worthy to take you through an example of how we think about this in the context of the Fund.

A good rule of thumb is when a company or industry has a long-term tailwind aiding its growth, as long as the valuations don't get stretched it makes sense to continue to hold and ride the tailwind. The aerospace industry currently has this tailwind, and **MTU Aero Engines** is a classic example of a stock that is no longer neglected but we are happy to hold.

We have owned MTU for some time, with the Fund beginning to accumulate stock in 2008 at prices ranging from €35 to €24. Early in 2008 the market was concerned with cost overruns in its engine maintenance and repair business, and the pain of a strong Euro. As we moved further into the GFC the concern shifted to panic around fleet groundings by the airlines, with the stock eventually bottoming at €17.

The bulk of MTU's profits come from the manufacture of highly specialised jet engine components for the likes of GE, and Pratt and Whitney (P&W). The aero jet industry has a revenue model that is similar to the classic 'razor and blades' model. Jet engines on a newly delivered plane are sold at a price close to cost, after which the engine component manufacturers will recoup their profits from highly lucrative spare parts sales made over the engine's 20 year life. As jet engines are subject to regulated scheduled maintenance, this creates a reasonably certain annuity stream for MTU.

The aerospace industry is currently going through an enormous boom in the delivery of new planes. This is being driven by growing demand for air travel in emerging markets, western carriers aggressively renewing their fleets to gain better fuel efficiency (for example a new Boeing 777-ER has a 20% fuel burn advantage over the Boeing 747-400) and record low interest rates along with easy access to credit providing everyone with the money to pay for it.

This delivery boom is a short-term dampener to MTU's profits, both in the sense that they are currently delivering a lot of new engines at little profit and some of their older engines are being retired earlier than expected (costing them parts revenue). However, if we take a longer term view, the simple fact is that the global fleet of MTU equipped engines will be considerably larger in five years, guaranteeing us a larger spare parts revenue stream. This growth is further boosted by the good work the company has done to expand its 'programme share' (the share of engine components in an engine owned by MTU, and hence how much revenue per engine we receive) on high profile engines such as P&W's geared turbo fan.

Since bottoming in the GFC, the aerospace equipment industry has been a stellar performer; MTU's share price has risen more than four-fold and the street is now well aware of the company's appeal. However, due to the factors described above, MTU as a company is highly certain to be bigger and more profitable five years out. At a current valuation of 15x, MTU Aero Engines, whilst no longer neglected, remains a sensible holding for the Fund.

Outlook

The pull back in European markets over the last month has presented us with opportunities to add to our longs and reduce our shorts, and this has seen us take up the net invested position of the Fund up from 77% to 81% today. In terms of geographical focus, the Fund is currently researching a number of prospective ideas in both Italy and Russia.

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: 30 April 1995
   Platinum Unhedged Fund: 31 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

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 June 2008 to 30 June 2013 relative to their Index (in A$) 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.

3. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short derivatives.

Disclaimer

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