Platinum European Fund

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Performance

(compound pa, to 30 June 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	-2%	-7%	9%	10%	11%
MSCI AC Europe Index	0%	-8%	9%	8%	2%

Source: Platinum and MSCI. Refer to note 1, page 5.

European shares rose a mere 1% (in local currency) in the three months to 30 June 2016. Mounting evidence of economic recovery was rendered irrelevant when, on 23 June, Britain voted to withdraw from the European Union (EU). Within two trading days of this event:

- the British pound depreciated by 12% against the US dollar and 8% against the Euro;
- the MSCI index of European shares fell 11%; and
- yield on 10-Year UK Government Bonds fell to 0.93% from 1.37% while 10-Year German Government Bonds were yielding -0.11%.

Disposition of Assets

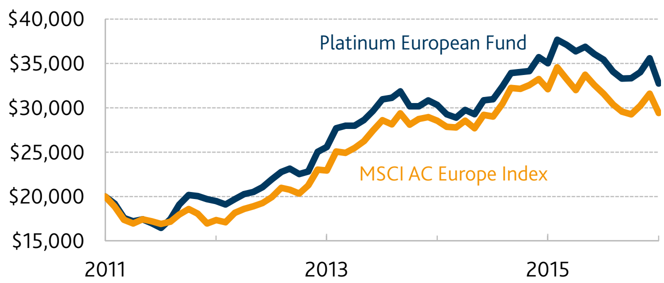
REGION	JUN 2016	MAR 2016
Germany	21%	21%
UK	15%	18%
Italy	7%	6%
Spain	6%	5%
Austria	6%	6%
France	6%	5%
Russia	4%	4%
US *	4%	4%
Hungary	2%	3%
Switzerland	2%	2%
Norway	2%	2%
Netherlands	2%	2%
Sweden	1%	1%
Cash	22%	21%
Shorts	-1%	0%

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

Source: Platinum. Refer to note 3, page 5.

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



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

In subsequent days, currencies stabilised and stock markets recovered some of these losses. Commodity prices were surprisingly strong with oil up 26% and growth-sensitive copper managing to stay flat for the quarter.

The Fund returned -1.8% for the quarter and -6.5% for the year (in Australian dollar terms). This compares to 0.5% and -8.4%, respectively, for our benchmark.

Commentary

Britain's decision to leave the EU dominated the performance of both the Fund and European equities more broadly. The best performing sectors were traditional defensives: Staples, Healthcare and Precious Metals. Energy and Resources performed uncharacteristically well, helped by the aforementioned strength in commodity prices.

The worst performing sectors were the economically-sensitive (i.e. cyclical) ones: Banks, Homebuilders, Building Materials, Automotive, Media and Retailers. British stocks typically fell more than their European counterparts.

Our primary exposure to the repercussions of Britain's decision to withdraw from the EU arises from our holdings in (1) UK companies and (2) European banks. Aside from our bank holdings, we had minimal exposure to the cyclical sectors listed above.

While we did not expect Britain to vote to leave the EU, we did recognise it as a risk. Hence, we limited our holdings of domestically focused UK companies. Two-thirds of our UK holdings are companies that operate globally and are insulated to the extent that they have limited exposure to the UK economy and will benefit from the falling Pound. Overall, our UK stocks performed reasonably well under the circumstances.

The same cannot be said for our European Banks, particularly the Italian banks which performed even worse than British banks. Our rationale for investing in these banks is explained in some detail in the Platinum Unhedged Fund report. The important point is that we believe this underperformance has little grounding in economic or commercial reality, but rather reflects changing attitudes to risk.

Having been burnt by Brexit, investors have gone from largely ignoring political risk to having an extreme intolerance for it. With Italy holding a referendum on wide-ranging political reforms in October, on which the reform-minded Prime Minister has staked his career, investors can't get away fast enough. We see this sell-off as an opportunity. These are the same businesses they were just two weeks ago. Back then, the Italian referendum, and the reform it promised to usher in, was seen as a highly compelling reason to own Italian banks. Reality has not changed; perceptions have. In the long run, it's reality that matters. We believe these shares will recover.

Extricating Britain from the EU will prove ferociously complex and will take many years. There are different trade relations models that a post-exit Britain could adopt (see Appendix). Broadly speaking, the desire to retain (or gain) access to the EU's single market will need to be matched by a preparedness to sacrifice a corresponding amount of autonomy. The exit negotiations themselves are expected to take two years while the negotiation of subsequent trade agreements, if precedents such as Switzerland are anything to go by, may take a decade or more.

While the long-term consequences are largely unknowable, the near-term impact is clearer:

- The increased uncertainty will erode consumer and business confidence, causing a deferral of spending and investment decisions. Slower economic growth is in store for both Britain and Europe. Britain may experience a recession.
- Central banks will respond. The Bank of England will likely cut interest rates from 0.5% to zero within months and may reinstate Quantitative Easing. The European Central Bank will also provide stimulus, if needed.
- Yields on government bonds will be suppressed further. Negative interest rates will be the norm.
- Governments will turn their backs on fiscal responsibility and assume the mantle of stimulating demand. Their scope to act is enhanced by low interest rates. Their need to act is evident as the limits of central bank easing are becoming increasingly apparent.
- Currencies will depreciate to absorb the worst of the economic shock. The Pound is likely to depreciate more than the Euro due to Britain's weak trade position and financial vulnerability.
- Markets will now be extremely averse to political risk. Safety, or the illusion thereof, will be highly sought after and highly priced.

Changes to the Portfolio

Our portfolio comprises investments in 45 companies, a single short position and a cash holding amounting to 22% of our capital (before year-end distribution). This is largely unchanged from the previous quarter.

During the quarter we introduced two new companies into our portfolio.

The first is a sleepy European company that is waking up and restructuring. The business has some attractive assets mixed in with some fairly ordinary ones. Our research elsewhere in the sector hints at favourable changes in some of their important end-markets. We've also noted increased interest in these sorts of assets from large multinationals, who are paying significant premiums to the multiples this company trades on. The story is further sweetened by an activist applying pressure for shareholder-friendly change.

The second is a German services business in a duopoly industry, with a wide moat and wonderful economics. The business needs very little capital and can grow earnings while paying most of its profits out to investors. Despite being highly profitable, this business operates in a very depressed market and can experience substantial growth should circumstances change, which we think they will.

To fund these new investments, we exited three existing ones, namely:

- **Meyer Burger** – a Swiss manufacturer of machinery used to make solar cells. We invested in the company at a time when customers had excess manufacturing capacity and orders had dried up. With end-user demand for solar cells continuing to grow rapidly, we expected manufacturing capacity would eventually expand again. However, manufacturers have been slow to add new capacity and there is a growing risk that Meyer Burger will run out of money before this happens. We lost money on this investment. In hindsight, an investment in such a cut-throat business with little recurring revenue required a much larger margin of safety.

- **Telecom Plus** – a reseller of electricity, gas and phone services to consumers in the UK. The company continues to struggle as utilities offer honeymoon rates to new consumers to entice them to switch provider without offering the same rate to existing customers or resellers like Telecom Plus. Telecom Plus cannot compete with these honeymoon rates which limit its ability to grow. Anticipated regulatory intervention did not materialise while an improvement in wholesale prices has become less likely. We sold this position to finance other investments, having made a profit once the hearty dividends are factored in.

- **Subsea 7** – a Norwegian oil services company that installs subsea plumbing in offshore oil wells. We bought this company on distressed valuations on the expectation that the oil price would ultimately recover and activity in the offshore oil industry would recover with it. Oil prices have rallied strongly in recent months and so has Subsea 7's stock price. We sold the position as we feel that there is still a substantial risk of contract cancellations in Brazil which outweighs the prospect of further oil price upside. This was a profitable investment for the Fund.

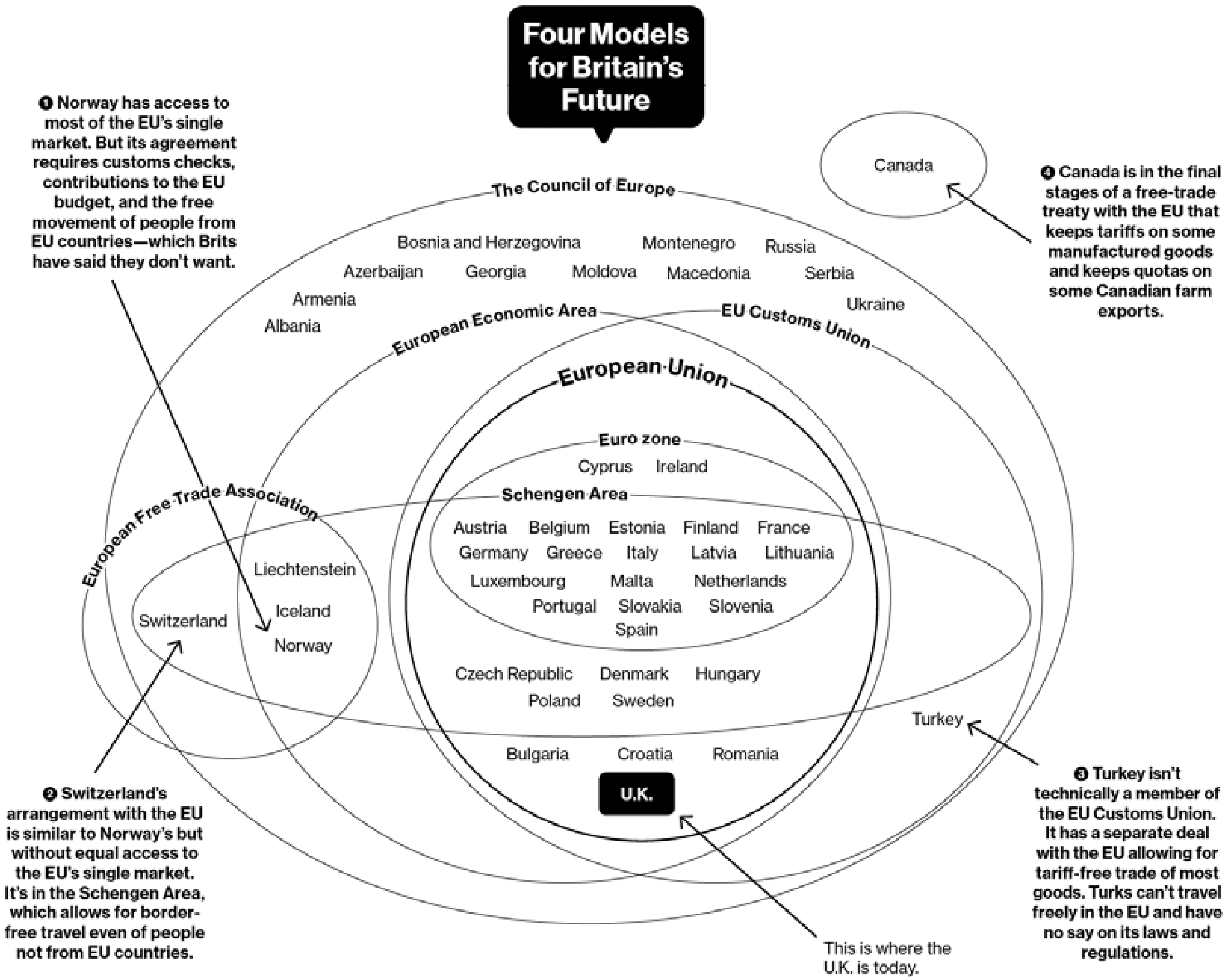
During the quarter we also trimmed a number of positions where we felt valuations were approaching levels that we considered quite rich. As a consequence, our cash holdings had been increasing for most of the quarter. Following the Brexit vote, we used this cash to add to a number of existing positions including our **Italian banks**.

Outlook

'Brexit' caught markets by surprise. While asset prices have stabilised following the initial shock, we expect significant volatility ahead as investors come to terms with a weaker economic outlook and grapple with a heightened aversion to uncertainty. The modest fall in broad share market indices obscures extreme moves in certain sub-segments where it is not uncommon for stocks to have lost a quarter of their value. While such large share price falls can be confronting, this kind of blanket selling opens up highly attractive investment opportunities. We have added to a number of existing positions and have a substantial cash holding to pursue new investment ideas.

Appendix

Four Models for Britain's Future



Source: Bloomberg Businessweek

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified 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 in the 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$20,000 invested in the relevant Fund over five years from 30 June 2011 to 30 June 2016 relative to the relevant benchmark index (in A$) as per below (the "Index"):
   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 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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