Platinum European Fund

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Disposition of Assets

REGION	SEP 2013	JUN 2013
Germany	33%	37%
UK	22%	22%
France	12%	12%
Italy	6%	3%
Spain	3%	3%
Switzerland	2%	0%
Netherlands	2%	4%
Sweden	2%	2%
Russia	2%	2%
US *	2%	2%
Turkey	1%	0%
Belgium	1%	1%
Cash	12%	12%
Shorts	5%	7%

* 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 September 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum European Fund	9%	38%	15%	12%	12%
MSCI AC Europe Index	11%	37%	10%	2%	1%

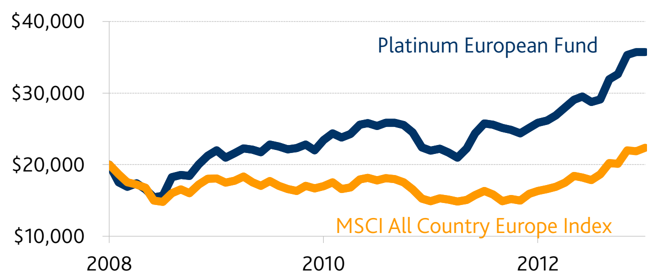
Source: Platinum and MSCI. Refer to Note 1, page 4.

Over the past quarter, growing evidence of a broad economic recovery across Europe continues to fuel investor appetite for European stocks. The Euro denominated markets appreciated strongly, the standouts being Spain and Italy, which were up 19% and 13% respectively, followed by France (+9%) and Germany (+7.5%).

In Australian dollar terms, the Fund appreciated 9.4% versus 11% for the MSCI Europe Index. The underperformance versus the Index is largely down to our short positions (-0.7%) and currency (-0.9%), with our long equity positions returning 11%.

Value of $20,000 Invested Over Five Years

30 September 2008 to 30 September 2013



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

Last quarter we highlighted that we were spending some time researching ideas in Italy and Russia, and as a result we significantly added to our holdings in **Intesa Sanpaolo SpA** (banking), **Saipem** (oil services) and **Sberbank of Russia**. Elsewhere we took the opportunity created by the sharp panic sell-off in emerging market currencies (in particular the Indian rupee, Brazilian real and Turkish lira) to establish a new position in **Turkcell** (leading Turkish mobile phone network), along with upping our stake in **Casino** (whose major assets include Brazilian retail giant CBD).

Commentary

Members of the team recently returned from a European research trip. The trip included several days meeting financial services companies in London, however, the highlight was the five days we spent in Russia, meeting a wide range of Russian companies.

Russia is an interesting "emerging market" to us given the aversion many have to investing there. The market valuation trades at a "risk discount", unlike say Indonesia, Thailand and the Philippines where valuations trade at a "growth premium". The reasons for investor distrust are well-known, illustrated by previous ill-treatment of foreign shareholders (Shell's Sakhalin project, TNK-BP) and the historic popularity of related party transactions amongst Russia's listed firms, where assets are often bought from controlling shareholders in opaque deals.

However, there are a number of positive aspects to the Russian investment case that get far less air time. The most important of these are post admittance to the World Trade Organisation, there is growing evidence the government is making a concerted effort to incentivise local investment and reduce the influence of the state in business. Examples of this can be seen in generous tax incentives for investment in priority industries (healthcare and high value added manufacturing) along with additional funding and autonomy provided to the regions who are most active in improving the ease of doing business (Kazan and Yekaterinburg were oft highlighted as the most dynamic in this regard).

The effectiveness of these measures are generally confirmed by the experiences of our Western European companies in the region – the message is that business practises are improving and they are willing to invest more capital. The above, combined with a highly educated population and wage rates that are now competitive with large swathes of the Chinese labour force, warrants a closer look at Russia.

The majority of companies we visited were involved in consumer facing industries, along with some financials and transport infrastructure. The Russian consumer sector has been front of mind for investors given its massive growth over the past decade. According to federal statistics compiled by Merrill Lynch, <u>in 2005 only 1.4 million Russians were earning over US$1,000 per month, whilst close to 40 million earn that figure today</u>. If you factor in that a large percentage of this income is disposable (income tax is 13%, utilities are heavily subsidised and most households own their own home and have little debt), it is not surprising that many of the retailers and auto companies have seen their profits quadruple over the same timeframe.

This wealth effect is now broadening out to a range of other industries, an example being private medical care. In Moscow, the medical fee to deliver a child in a state run hospital is US$400, however, one can be assured the quality of hospital infrastructure and service matches the low price! A better quality service (but still not up to western standards) could be obtained in the private wing of a state run hospital for a fee of US$5,000, but in reality local options for those seeking high quality medical care were limited. The maternity hospital operator we visited is a good example of private enterprise stepping in to fill the need, offering world class hospital facilities, an ability to choose your obstetrician and full outpatient care throughout the pregnancy process. Whilst the fee is considerably higher at US$10,000 per delivery, the utilisation rate at their main Moscow hospital is running at close to 100%! Their second facility in the Moscow suburbs has just been opened, with a third underway in the regional city of Ufa.

The need for infrastructure renewal is a constant theme in Russia. Logistics were consistently highlighted in meetings as a particular challenge, as vast distances, harsh weather and poor quality transport links combine to create havoc. To their credit the government is trying to rectify this; annual spending on transport infrastructure has doubled since 2006 and a separate organisation, Avtodor, has been set-up, which funded by increased vehicle and petrol taxes will look to co-invest with the private sector in toll road concessions. The leading listed road and bridge builder **Mostotrest** looks well-placed to benefit, both from the construction, but also the possibility to participate in toll road concessions. They have entered one toll road project as a test case in partnership with French concession experts Vinci. If the government keeps to their end of the bargain around upholding contractual rights on tolls and reimbursements, they will look to enter more.

Another obvious area of potential investment is in the residential housing stock, as people seek to upgrade their spartan 1960s soviet-era apartments. Discussions with the banks and builders tended to confirm that the impediment to more residential construction activity remains the cost of financing, rather than the ability to get a mortgage, with mortgage debt costing between 13-15% depending whether you are financing pre-built or off the plan units. The use of mortgage debt is still very low in Russia and a mere 15% of homes sold by major home builder **Etalon** were financed by a mortgage in 2012, while mortgages account for only 10% of the loan book at banking giant **Sberbank** (for context home mortgages account for 60% of the Australian banks loan books).

A further quirk in the financial landscape is the lingering distrust in banks, especially from the generation who saw their wealth wiped out in the 1991 and 1998 crises. This has resulted in a tendency of people to hold a large percentage of their savings in physical cash, a lack of direct debit functionality to pay recurring bills, and a general reluctance to pre-pay expenses (i.e. Russians would rather make frequent small mobile phone top-ups of a few dollars, rather than say one top up of $15-20). In response, the Russian electronic payments industry has had to adapt early and we are interested in one local payments company whose innovations have put them in good stead for the future shift to mobile payments.

Outlook

Our impressions of Russia were generally quite positive and we have a number of worthy ideas to pursue. The pace of which these ideas will translate into new holdings for the Fund will be tempered by the need for us to continue to build our knowledge base around the Russian market and of course, the individual valuations of the stocks on offer.

More broadly in Europe, evidence of economic improvement continues and stocks have done well as investors buy in advance of an expected earnings recovery. As highlighted in the last quarterly report, the main focus is to continue to rotate the Fund out of investments where valuations have become full and into more prospective areas of neglect.

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$20,000 invested in the relevant Fund over five years from 30 September 2008 to 30 September 2013 relative to their Index (in A$) 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.

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