Platinum European Fund

Clay Smolinski Portfolio Manager

Nik Dvornak Portfolio Manager

Disposition of Assets

REGION	SEP 2014	JUN 2014
Germany	22%	23%
UK	22%	21%
France	8%	8%
Italy	7%	6%
Russia	5%	5%
Switzerland	4%	2%
US *	3%	4%
Austria	3%	3%
Spain	2%	3%
Netherlands	2%	1%
Sweden	1%	1%
Turkey	1%	1%
Belgium	1%	1%
Cash	19%	21%
Shorts	1%	2%

*Stocks listed in the US but predominent business is conducted in Europe

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

Performance

(compound pa, to 30 September 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	-2%	6%	20%	12%	12%
MSCI AC Europe Index	0%	12%	19%	7%	2%

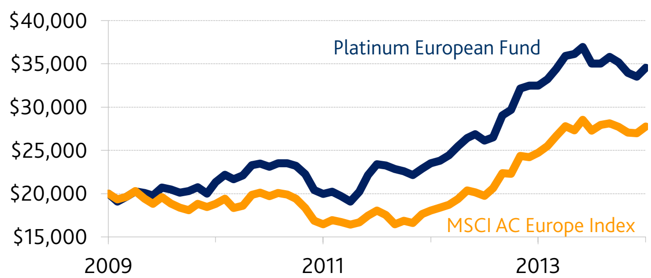
Source: Platinum and MSCI. Refer to Note 1, page 4.

After two years of strong gains, European markets have largely tracked sideways in 2014, with the major German, French and UK indices all being flat to slightly down year-to-date.

This performance when translated to Australian dollars has resulted in the European Index being roughly flat over the last nine months. Unfortunately, the performance of the Fund has been weaker, returning -3.9% over the same period.

Value of $20,000 Invested Over Five Years

30 September 2009 to 30 September 2014



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

Changes to the Portfolio

Over the quarter we made sizeable additions to our holdings in solar equipment manufacturer **Meyer Burger**, market research provider **GFK**, cruise operator **Carnival** and payments network **QIWI**.

We are still finding value in the European banking sector and have taken a new position in on-line banking leader **ING**, along with increasing our holdings in **Erste Bank** and **Intesa Sanpaolo**.

Commentary

After a long period of outperformance, the Fund has lagged the Index over the last 12 months and it is worth illustrating why this has been the case.

The underperformance is largely attributable to two factors. The first was the decision to maintain a relatively low net invested position of 75-80% (via a high cash balance) during 2013. The second factor is that starting in March this year we have had four large positions go against us in succession. Overall the cash balance in 2013 (-1%) and the aforementioned stocks (-4%) largely gets us to a -5.8% differential between the Fund and the Index over the last 12 months.

The decision to reduce exposure in 2013 was in response to a large rally in European stock markets which meant valuations had become far less attractive by that time. In light of this, we felt positioning the portfolio in a more conservative manner was sensible. With the benefit of hindsight, however, this move was made six months too early.

The bigger issue for the last nine months has been more stock specific. We have had four positions, namely **Sberbank** of Russia, **Erste Bank** (Austria and Eastern Europe), **Enterprise Inns** (UK pubs) and **Adidas**, with each position roughly costing the Fund -1% each.

The falls in price at **Sberbank** and Erste Bank are largely to do with timing. Sberbank and the entire Russian stock market have been sold down post Russia's incursion into Ukraine. Given the strong desire of the US and European Union (EU) to avoid military action, the conflict does look like it is progressing towards peaceful resolution rather than full scale military intervention. We would point out that Sberbank is an institution that is designed to withstand economic shocks such as these with the bank surviving the Cold War, the 1998 Russian sovereign default and more recently, the GFC. Trading on 4x P/E and 0.8x of book there is still clear value to be had.

Erste Bank has fallen after announcing higher than expected loan losses in its Romanian and Hungarian divisions which pushed out the timing of the profit recovery of the bank. The attraction of Erste is its highly profitable banking operations in the Czech Republic, Slovakia and Romania. These are interesting 'emerging markets' due to their commitment to join the European Union, with Slovakia already fully converted to the Euro currency. The real benefit is the wide ranging institutional reforms that EU entry requires these countries to undertake (a trait lacking in many other emerging markets), which builds the foundations for sustainable economic growth for years to come.

The above reforms, combined with the fact that Erste's main Eastern European markets have low levels of debt outstanding, a large labour cost differential versus Western Europe and the need for infrastructure build-out means these are one of the few European banking markets that can post strong growth over the next decade. As this growth comes through, Erste is unlikely to remain at a valuation of 7x earnings and 0.8x book. We have been adding to our holdings at the recent lows.

Enterprise Inns and Adidas are examples of longer term holdings that have performed very well for the Fund but have recently given back some of their gains. **Enterprise Inns** is a real estate business, owning 5,000 pubs across the UK. The estate carried a lot of debt and the business came under pressure as the spike in unemployment post the GFC hit revenues. The last five years has been a process of paying down debt (which has fallen from £3.8 billion to £2.4 billion) and reshaping the estate via selling the weaker performing pubs. With the bulk of the workout complete, pub revenues have started growing again and management can now spend more of their time and cash flow on operational improvements to the business.

While recent results confirm the business is heading in the right direction, the stock still carries high leverage and is susceptible to periodic pull backs, especially on any fears about the economic health of the UK consumer. The recent -25% fall was driven by worry over higher UK interest rates and the strong pound. Overall, with revenue trends improving and the stock trading at 0.5x of net asset value and 6x P/E, we are happy to hold.

Finally **Adidas** was the only position where we have decided to reduce the holding post the fall in price. While the company has been hit by some external factors (exposure to Russia, a slump in the golf market, adverse FX moves) there is evidence of internal problems as well. In recent years Adidas has been outplayed by main competitor Nike both in product and with the success of rolling out their own direct retail. Nike is now increasingly making inroads into European football where Adidas has long had the upper hand. Adidas is choosing to defend itself by throwing more dollars at marketing. Actions like their recent decision to pay Manchester United a record €94 million pa for sponsorship (when Real Madrid are only receiving €38 million pa), does not instil confidence in their position nor does it convince us of a quick recovery to profit.

Outlook

The table below shows the annual returns of the Fund. For the five years up to 2013, the returns profile has been favourable. When we have outperformed we have done so by a wide margin and when we have underperformed it has been by a relatively modest amount. While a comparison of the Fund's performance to the Index will always be made, the important point to highlight is that **we pay no attention to the Index when constructing the portfolio**. As a result the portfolio tends to look very different to the Index. Just as there have been periods where returns are very good, it is also inevitable that there will be times where returns lag.

The Fund is guided by a process of investing in neglected stocks, with the ultimate goal of delivering a sensible return for investors. This includes positioning the portfolio more aggressively when there are many great ideas on offer but also having an eye on protecting investors capital when markets become stretched. Historically, this process of seeking neglect when applied over longer time frames has delivered good returns for investors.

Valuations in Europe are fair, the economy is slowly recovering and both are supported by very low interest rates. The initial excitement around the pace of the economic recovery is starting to wane and further increases in stock prices need to be driven by earnings growth. This means much more volatility within the market, with companies who disappoint on the earnings being heavily sold down. In this context we still feel it is sensible to maintain a decent cash balance, both for the protection it offers and the flexibility it gives to take advantage of this volatility.

Fund Annual Returns (calendar year, %)

REGION	2009	2010	2011	2012	2013	YTD 2014
Platinum European Fund	28.0	9.1	-13.6	33.3	41.0	-3.9
MSCI All Country Europe Net Index	6.6	-8.3	-11.8	17.9	43.5	-0.2
Outperformance	21.4	17.4	*-1.8*	15.4	*-2.5*	*-3.7*

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

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$20,000 invested in the relevant Fund over five years from 30 September 2009 to 30 September 2014 relative to their Index (in A$) 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. Invested position represents the exposure of physical holdings and long stock derivatives.

Disclaimer

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